

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Monday, 3/31): 9,047 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: \$13.75 – 37.50 per MWh, Ave. = \$19.3
- Approximate change from previous week \$-22.2 per MWh
- “Normal” price range, before 5/00 \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$31.04 per barrel (year ago: \$24.47)
- Seattle gasoline price (3/31) \$1.88 per gallon, see chart on pg. 6 (year ago \$1.40)
- Natural gas, Sumas Hub: \$4.41 per million British Thermal Units (year ago \$2.79)
- Approximate change from last week. Oil: + \$2.38 per barrel; Nat. gas: -\$0.19 MMBtu

3. California Electricity Situation

- CA ISO Alert Status
 - o A stage 2 alert was declared on July 10, 2002.
 - o Restricted maintenance warning declared, Sept. 23, 2001
 - o Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - o US seen turning to LNG to close natural gas supply gap (Reuters, Mar.31)
 - o Rising oil prices slow flow to US refineries (Washington Post, Mar. 31)
 - o Energy plan faces regional concerns (Sacramento Bee, Mar. 31)

4. River and Snowpack Information (Updated Mar 25, 2003)

- Observed March stream flow at The Dalles: 113% of average
- Observed February precipitation above the Dalles: 188% of average
- Observed 2003 snow pack as of Mar. 10: 74% of average
- The latest forecast of Columbia River stream flows this January through June is 77.9 million acre feet, 73 percent of normal: National Weather Service Northwest River Forecast Center.

5. Energy Conservation Achievement (Updated Mar. 10, 2003)

- **State Agencies:** From January to December 2002 electrical usage was 7.6 % less and natural gas usage was 4.1% less compared to the same period in 2000.

6. Winter Load Loss/Reservoir Impacts/Fish (Updated Mar. 18)

- Federal reservoir system storage: 44% full: Precipitation Oct. – to date, 85% of normal.
- Estimated winter (2002/03) load loss probability of 1%

7. Power Exchanged: (Mar. 18)

- Average flow of power during the last 30 days
 - o California (exported to) 1473 MW
 - o Canada (exported to) 87 MW
 - o Net power export: 1560 MW

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US seen turning to LNG to close natural gas supply gap

Reuters - *March 31, 2003*

By Joseph Silha

NEW YORK, March 31 (Reuters) - With U.S. natural gas output expected to be on the decline for most of this decade, the nation will need to turn to imports of liquefied natural gas to close a looming supply gap, energy analysts said.

Output from the nation's gas fields, which slipped some 5 percent in 2002, is expected to shrink another 2 percent this year, as cash-strapped energy firms focus more on improving balance sheets than finding new supply.

But analysts say the production declines go deeper than a temporary lack of investment in drilling, noting most of the easy onshore and shallow water fields have been tapped, while some promising prospects are likely to remain off limits for environmental reasons.

"We think LNG will be a very important part of the supply mix. Without it, we'll have difficulty keeping up with gas demand," said Kevin Petak, director at consultant firm Energy and Environmental Analysis (EEA) in Virginia.

RISING SHARE OF SUPPLY

Natural gas, seen as cleaner burning than either coal or oil, has become the fuel of choice for homes, industry and utilities, and demand is expected to stay on an upward track, primarily because of wider use in new gas-fired power plants.

U.S. gas consumption could hit 30 trillion cubic feet by 2015, up more than 35 percent from about 22 tcf last year, according to government data.

"In the lower-48 and Canada, I do not see sufficient production growth to offset the growth in demand. If we assume gas production will hold steady or decline, you have to look at what fills the gap, and LNG becomes the next best economic increment," said Rusty Cates, vice president at International Gas Consulting in Houston.

LNG, a super-cooled and compressed form of natural gas, currently meets only about 1 percent of total U.S. gas demand, or about 220 billion cubic feet in 2002.

EEA's Petak and others see LNG's share growing to 8 percent or more by 2010, as suppliers are forced to rely on imports to close the projected supply gap this decade.

"There are two ways to close the gap: further demand destruction by high prices or with LNG," said Bob Ineson, a director at Cambridge Energy Research Associates (CERA).

While LNG's higher cost has often been a deterrent to wider use, analysts say the recent leveling of gas prices above \$5 per million British thermal units has put LNG back in focus.

"It's not a difficult assumption to think gas prices will stay above the \$3.25 threshold. We've reached a new, higher-priced equilibrium in gas prices," Cates said.

HUGE INVESTMENT NEEDED

But increasing imports of LNG would not come easily, with only three terminals currently operating in the U.S. and another slated to open this spring.

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Total annual capacity of the four is about 830 bcf, with another 600 bcf possible in coming years if proposed expansion plans were completed.

Analysts say billions more in capital investments would be needed for new liquefaction facilities overseas, tankers and regasification terminals here to meet growing gas demand.

"There's enough gas globally out there, but the problem is getting it here will require significant investment," Ineson said, estimating that one liquefaction facility, several tankers and one regasification terminal would cost some \$3 billion to \$5 billion.

OTHER ROADBLOCKS

Despite the need for new facilities, analysts said building them in the U.S. would face some serious hurdles.

For one, there are deep-seated concerns about safety and security, particularly after the terror attacks in 2001.

There are also NIMBY (not in my back yard) concerns, with few, if any, communities likely to welcome the siting of a new regasification facility in their neighborhoods.

"The highest value facilities would be away from the production zone (in the U.S. Gulf) and near population centers on the East and West Coast, but most people in the industry do not believe they can build there," Cates said.

Analysts say building terminals far offshore, then connecting them to the mainland by pipeline, or siting them in nearby countries like Mexico or Bahamas could be viable options.

"Out-of-sight, out-of-mind projects address NIMBY concerns. You can see these projects going forward," Ineson said.

As for objections that LNG would increase the nation's reliance on foreign imports since some of the main sources of supply could come from the Middle East, West Africa or Asia, analysts generally agree there are few options

Rising Oil Prices Slow Flow to U.S. Refineries

Stockpiles of Fuel At Historic Lows

By Peter Behr, Washington Post, March 31,

The rebound in crude oil prices last week, triggered by Iraq's resistance to U.S.-led forces, has slowed the flow of oil imports to U.S. refineries and the production of gasoline, leaving motor fuel stockpiles at historically low levels as the summer driving season approaches, energy analysts warn.

The uncertain course of the war and the accompanying gyrations in oil prices are making U.S. energy companies wary about rebuilding depleted fuel inventories with high-priced crude. The companies also are worried that a sudden favorable turn in the war could caused oil prices to plummet.

"If we ever get past this crisis, crude prices will drop like a rock," said Mary Rose Brown, vice president and spokesman of Valero Energy Corp. in San Antonio, one of the largest U.S. refiners.

"Does it make you more cautious? Yes. Any barrel you buy today that would have been be cheaper next month -- that would be a stupid move."

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The caution is widespread among refiners, too. In the week ending March 21, U.S. refineries produced less gasoline and other products than the week before, even though oil is available.

But if gasoline inventories are not in better shape when gasoline demand picks up on Memorial Day, pump prices could stay high through next fall, the Energy Information Administration warned last week.

A big increase in crude imports is needed to refill gasoline stockpiles, the EIA said. "However, the evidence so far suggests that either this is not happening, or that if so, the pace is barely perceptible," it warned.

Gasoline inventories in the United States have been falling since early this year, following a strike in December that closed down Venezuela's oil fields, a crucial source of both oil and gasoline imports. As of mid-March, U.S. gasoline inventories were 6 percent below levels a year ago and pump prices have risen as inventories shrunk.

Motorists got a bit of relief after oil prices plunged in energy markets' optimistic reaction to the onset of the Iraq war on March 20. The cash or spot prices of a benchmark U.S. crude brand, West Texas Intermediate, stood at \$37.87 a barrel on March 12, but by the war's second day, had plunged to \$27.18, the EIA said. Gasoline prices followed with a small downward move, with the national average price for regular brands dropping from \$1.72 in mid-March to \$1.69 at the end of last week.

But the end of last week, crude oil prices had climbed to \$30.16 a barrel on U.S. markets, and gasoline prices generally follow the direction of oil prices. In trading early today, U.S. light crude rose 13 cents, to \$30.29 a barrel.

With an uncertain war timetable, U.S. refiners cannot reliably predict when oil prices and gasoline prices might drop. That makes them unwilling to take the risk of increasing their import purchases on a large scale, even though there is plenty of oil around, said Jeff Goetz, director of Poten & Partners, a New York-based marine consulting group that tracks oil tanker shipments. "There's enough oil."

The Iraq war did not cause an immediate oil shortage, even though the conflict cut off nearly 2 million barrels of daily crude oil supplies, or about 3 percent of the world's needs.

In February, Saudi Arabia and other Persian Gulf producers increased oil production to counter a sharp increase in crude prices caused following the Venezuelan strike. Now that additional oil, equal to 1.5 million barrels of daily supply, is arriving at refineries along the Gulf of Mexico, completing a 45-day voyage from the Persian Gulf.

But all the cargoes are not being snapped up by refiners, industry analysts and officials said. Many refiners apparently are buying enough to serve motorists' current needs, but not enough to rebuild stocks. "They are looking to buy the oil when they need it," Goetz said. "When they are uncertain about the future, they hold back."

A refiner that bought a supertanker's cargo of 2 million barrels of oil at \$30 a barrel could lose millions if gasoline prices fall before that tanker cargo can be refined into gasoline and the fuel is distributed for sale to service stations. "The risk of oil prices going from \$40 to \$25 [a barrel] are much higher than going to \$60," he said.

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Valero lines up two-thirds of the oil it needs through advance contracts. The rest is purchased just as it's needed, on the spot market. "There are a lot of cargoes on the water, and a lot of oil headed this way that doesn't have a buyer," Brown said.

Energy plan faces regional concerns

David Whitney -- Bee Washington Bureau, April 1

WASHINGTON -- As House and Senate committees begin work on national energy legislation this week, some think Congress should refrain from any tinkering with electricity markets until the lessons from the California fiasco two years ago are fully understood.

"Until we know more and better understand the reasons that underlie the problems experienced in the electric industry in California and the Northwest, we should not promote comprehensive national restructuring of the electric industry," P.G. "Bud" Para, legislative affairs director for Florida's largest municipal utility, told a Senate hearing last week on behalf of a group of transmission-line owners trying to organize into a regional transmission grid.

At issue is the Federal Energy Regulatory Commission's proposal to establish a single, standardized market for electricity nationwide.

Called "standard market design," the proposal is still being written. But already it has divided regions of the country because of fears that in creating one massive network, some states and regions, including the West, could face higher costs and loss of control.

There also is concern that, in the zest for deregulation, too much power over state and regional systems is being transferred to the Federal Energy Regulatory Commission. This worry is greatest among publicly owned utilities such as the Sacramento Municipal Utility District.

SMUD's general manager, Jan Schori, told the House Energy and Commerce Committee last month that expansion of the commission's jurisdiction over publicly owned utilities and their transmission systems is her greatest concern. She was testifying on behalf of the Large Public Power Council, an association of the 24 largest public power systems in the country.

Since the California crisis, Schori said, "there is an unstable market for all participants and all consumers."

"Many LPPC members have serious concerns about legislating major changes to electric power markets at this time, concerns that are shared by our cities and states," she said.

The national energy policy that House and Senate committees are starting to write this week involves much more than electricity issues. There will be fights in the coming weeks over fuel-efficiency standards for cars and trucks, refrigerators and air conditioners.

There will be battles over drilling natural gas wells on public lands and drilling for oil in Alaska's Arctic National Wildlife Refuge.

Last year, lawmakers gave up on completing a final energy policy in the closing days of the Congress because of these differences, and the electricity portions of the bill were never ironed out by a House-Senate conference committee.

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This year, the electricity portion of the legislation starts on shifting ground.

Sen. Jeff Bingman, D-N.M., who headed the Senate Energy and Natural Resources Committee's work on the bill last year, said at a hearing last week that "many who supported the electricity title of the bill last year wonder about it this year."

That's largely because the standard market design proposed by federal regulators was just taking shape last year. And while the commission is under pressure to revise much in its proposal when it releases a white paper on it later this month, there are many who want Congress to kill it outright.

Among those sharing that view is Sen. Pete Domenici, R-N.M., who succeeded his New Mexico colleague as committee chairman after the November elections put Republicans back in control of the Senate.

Domenici could barely contain his animosity over the standardized market plan in which the commission is asserting broad authority to take over regulation of transmission lines and networks from states and publicly owned power agencies.

"This FERC has so sought to expand its authority that those who are worried about it have reasons for concern," Domenici said.

Domenici has proposed regional commissions to work with states on structuring competitive wholesale markets, an idea that also has failed to develop much enthusiasm.

The House bill, to be taken up by the full Energy and Commerce Committee starting today, is similarly divisive. When before the panel's energy subcommittee, an amendment that would have revamped the electricity provisions to focus primarily on issues raised by the California crisis -- prohibiting fraudulent and manipulative market practices and giving federal regulators the power to impose tough fines and seek criminal prosecution of those who don't comply -- was defeated on a 16-15 vote.

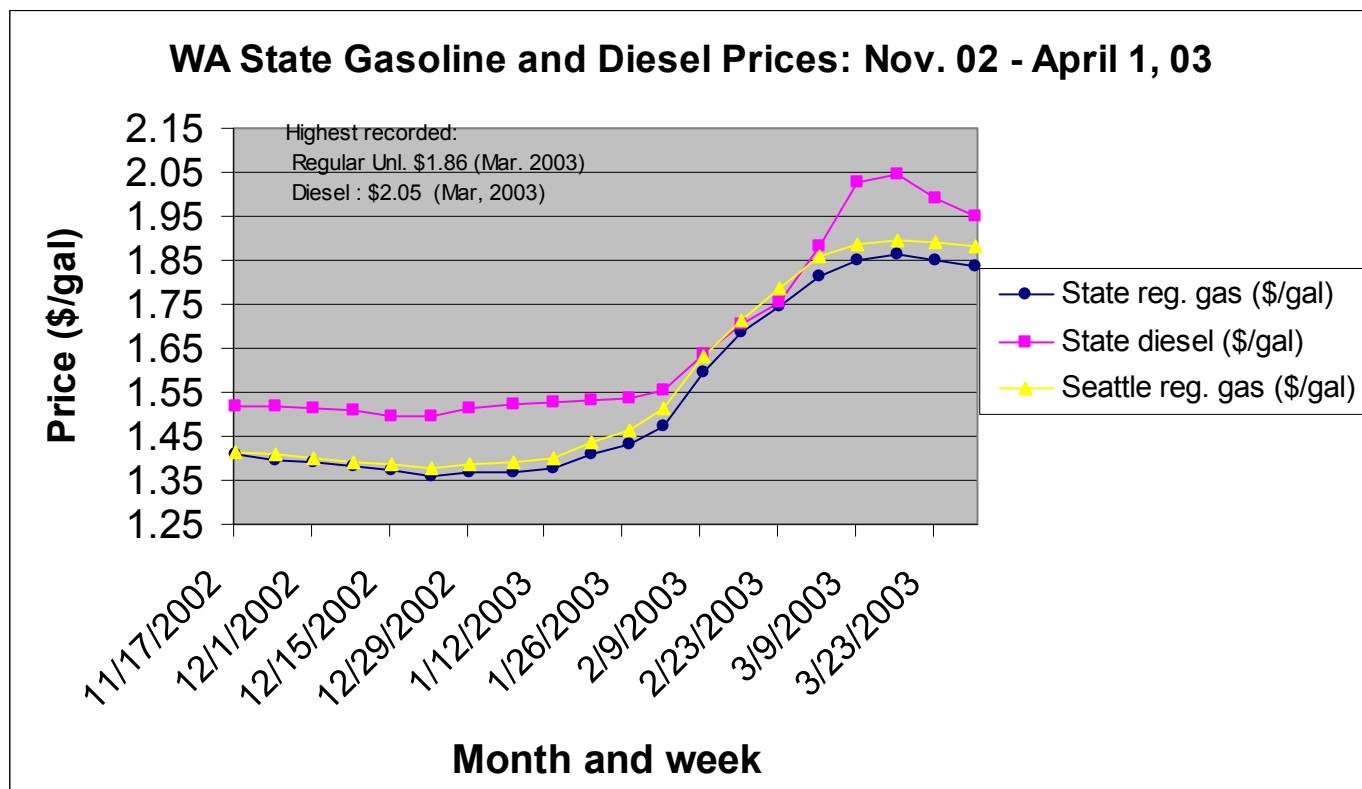
Another amendment by Rep. Lois Capps, D-Santa Barbara, to exempt states like California from the requirements of a standard market design was defeated 16-12.

With the battle over the electricity provisions developing more as a division among regions than political parties, the prospects of a deal seem more difficult than last year.

John Anderson, executive director of the Electricity Consumers Resource Council that represents large industrial users, said he doubts a deal can be reached that would advance free and open markets.

"That is why we believe that no electricity language may well be the preferable option, and that no electricity language may, in fact, be the most positive way to promote competition," he said.

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- Weekly Range at Mid-C: \$20 – 38.5 per MWh, Ave. = \$31.8
- Approximate change from previous week \$+12.5 per MWh
- “Normal” price range, before 5/00 \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$28.0 per barrel (year ago: \$24.47)
- Seattle gasoline price (4/7) \$1.86 per gallon, see chart on pg. 6 (year ago \$1.46)
- Natural gas, Sumas Hub: \$4.25 per million British Thermal Units (year ago \$2.79)
- Approximate change from last week. Oil: - \$3.0 per barrel; Nat. gas: -\$0.16 MMBtu

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- CA ISO Alert Status
 - o A stage 2 alert was declared on July 10, 2002.
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 - o Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - o Davis wants FERC to fork over (Sacramento Bee, Apr. 3)
 - o Oil supply less supple this time (LA Times, Apr 7)

4. River and Snowpack Information (Updated Apr 7, 2003)

- Observed March stream flow at The Dalles: 119% of average
- Observed March precipitation above the Dalles: 174% of average
- Observed 2003 snow pack as of April 7: 86% of average
- The latest forecast of Columbia River stream flows this January through June is 74.9 million acre feet, 73 percent of normal: National Weather Service Northwest River Forecast Center.

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- Federal reservoir system storage: 46% full: Precipitation Oct. – to date, 93% of normal.
- Estimated winter (2002/03) load loss probability of 1%

7. Power Exchanged: (April 1)

- Average flow of power during the last 30 days
 - o California (exported to) 3089 MW
 - o Canada (exported to) 765 MW
 - o Net power export: 3854 MW

Davis wants FERC to fork over

Gov. Gray Davis felt vindicated but not rewarded.

By Dale Kasler -- Bee Staff Writer, *Thursday, April 3, 2003*

Federal regulators agreed with just about every allegation Davis made about the California energy crisis -- that electricity sellers had systematically abused the state's energy market to drive up prices.

Although acknowledging rampant "price manipulation" and "abuses of market power," the Federal Energy Regulatory Commission indicated last week that it would order sellers to refund about \$3.3 billion, or approximately one-third the amount demanded by California. FERC's final decision is still pending.

"My message to FERC is, 'Thanks for the comforting words, but show me the money,' " Davis said in a conference call with reporters.

Why is FERC planning to limit the refund to \$3.3 billion? Because as it goes over the wholesale electricity prices charged in 2000-01, FERC seems to be looking at a relatively narrow window of time, California officials complain.

Essentially, the \$3.3 billion covers the period between Oct. 2, 2000, when FERC put energy companies on notice that it might order refunds, and Jan. 17, 2001, when the state of California began buying power on behalf of its struggling utility companies, said Erik Saltmarsh, executive director of the California Electricity Oversight Board.

Power sellers said they did nothing wrong, will try to whittle down the \$3.3 billion figure and will fight any California effort to increase the refunds.

State officials said they're likely to go to court if FERC doesn't raise the refund total.

"The governor's still committed to going after the full \$9 billion," said Richard Katz, a senior adviser to Davis. "He believes California was seriously ripped off."

Although FERC hasn't made a final decision, the agency has indicated it could broaden its timeline for refunds and look at prices charged before October 2000, Saltmarsh said. That would add to the refund total, he said.

But any refunds it orders for that pre-October period would be limited, and specific to individual companies found to have engaged in market misconduct, he said. FERC won't order sweeping refunds affecting all the energy sellers, as it has done for the post-October period, he said.

An explanation: Refunds are being ordered on a kind of "no-fault" basis for the post-October period. Companies whose prices exceeded a cost formula established by FERC will have to make refunds, whether they did anything wrong or simply took advantage of prevailing prices.

For the pre-October period, any refunds would be required only of companies that actually manipulated the market to cause sky-high prices. Other companies, able to reap high prices by following the market leader, won't be punished.

FERC spokesman Kevin Cadden said his agency can't go after every company for the pre-October trades. October was when FERC notified market participants of the possibility of refunds, and it would violate federal law to go after all the energy companies for high prices, Cadden said. FERC would be permitted to seek refunds only from the actual wrongdoers, he said.

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That's unfair, California officials say. It's like going after a jewel thief but not the thief's friends, who got some of the jewels, said Vickie Whitney, a deputy California attorney general.

"Everybody benefited from the manipulation," she said. "You shouldn't penalize some, and let everybody (else) keep the jewels."

As for the period after Jan. 17, 2001, when the state government jumped into the electricity-buying business on a daily basis, Cadden said FERC will scrutinize those purchases for possible refunds.

But Saltmarsh said it appears FERC actually will ignore the vast majority of the state's spot-market transactions.

Instead, he said, FERC will focus only on a tiny slice of the state's deals -- those made at the very last minute through the auspices of the California Independent System Operator, which runs the state's transmission grid. The state's direct spot-market purchases aren't eligible for refunds, Saltmarsh said.

"It just seems they're really disinclined to give a refund to the government of the state of California, even though they know the consumers would benefit," Saltmarsh said.

California's disastrous deregulation scheme called for the state's big utilities to sell most of their power plants to outside companies and then buy the electricity on a daily basis.

With Pacific Gas and Electric Co., Southern California Edison and San Diego Gas & Electric bled dry financially by soaring wholesale costs, the state Department of Water Resources started buying power for them in January 2001 at the direction of the Legislature. The power cost the state treasury billions of dollars, which the three utilities' ratepayers are paying back over time.

FERC stymied California on one more point last week: The federal agency indicated it won't cancel the billions in long-term power supply contracts the state signed with energy suppliers in spring 2001.

The state argued that those contracts were overpriced because the state was forced to negotiate them at a time when spot-market prices were raging out of control. Because those spot prices were the result of market manipulation, the contracts should be set aside, the state said.

FERC made no final decision but two of the three commissioners, including Chairman Patrick Wood, said they were leaning toward keeping the contracts in place.

Nevertheless, Wood said, FERC was firmly in the consumers' corner.

"This commission is acting to ensure that customers pay just and reasonable prices," he said after FERC acted last week.

In an accompanying report, FERC's staff said it found scores of examples of market manipulation by energy sellers. The staff said generators dragged their feet in resuming operations following shutdowns for repairs. It said marketers large and small "gamed" the system through trading schemes inspired by, and sometimes executed in cooperation with, once-powerful Enron Corp.

However, the staff also said the "root cause" of the energy crisis was a genuine shortage of electricity and a flawed market plan put in place by California.

For their part, generators and marketers say they're blameless -- and insisted they're prepared to fight if California tries to extract more refunds.

"FERC gave (state officials) every possible advantage ... and it's still not enough for them," said Gary Ackerman, executive director of the Western Power Trading Forum, an alliance of energy sellers.

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If anything, the final refund could wind up being less than \$3.3 billion, once the industry has a chance to reply to FERC's decision last week, Ackerman said.

Oil Supply Less Supple This Time

Less excess capacity and smaller inventories than before the '91 Iraq war mean no guarantee that prices will quickly return to their prewar levels.

By Elizabeth Douglass, LA Times Staff Writer, April 7, 2003

As far as oil markets are concerned, this war against Iraq is nothing like the last one.

Back then, adequate supplies were swiftly secured, and prices plummeted from record heights, even with two major exporters offline, Kuwaiti oil wells on fire and tankers slowed to a crawl in risky shipping lanes. Saudi Arabia and other nations had so much spare capacity that they could crank the valves wide open and calm oil traders' frayed nerves.

Crude prices that shot up to \$40.42 a barrel in the wake of Iraq's August 1990 invasion of Kuwait dropped more than \$10 the day after the U.S. began bombing Iraq in January 1991. They returned to the economically comfortable \$20 range a week later.

Fast-forward to 2003, and to another war with Iraq. Crude prices rose before the bombing started 19 days ago, to just under \$40 a barrel, then fell once the fighting began, settling at \$28.62 a barrel Friday as U.S. troops closed in on Baghdad.

Glancing at prices, the two war scenarios might seem similar, said Amy Myers Jaffe, senior energy advisor at Rice University's Baker Institute in Houston. "But there are actually some huge differences that could come back to bite us."

The most critical: This time around, there isn't much give in the global supply network. Any misstep can upset the supply-demand balance that holds prices steady.

Thirteen years ago, the market was overloaded with oil. The Organization of the Petroleum Exporting Countries was trying to shore up prices by holding down output by members, whose surplus production capacity at the time was a rich 5 million barrels a day.

U.S. storage tanks were filled to the brim, at a historic peak of 392 million barrels -- a 23-day supply at the time -- less than a week before Iraq invaded Kuwait. U.S. wells were producing enough to satisfy nearly 60% of U.S. demand.

Today, rarely used government stockpiles are ample, but commercial inventories in industrialized nations are at a 25-year low, able to meet about 50 days of demand, compared with 1990's 87-day cache. OPEC's extra oil production capacity has shrunk to between 700,000 and 1.2 million barrels a day by one estimate, at least 76% below what it was the summer of 1990.

U.S. inventories are in record-low territory, holding only about 14 days worth of consumption. What's more, gasoline stocks are well below normal levels as the nation heads into the summer

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driving season. And output from domestic wells covers just 47% of what the country consumes.

Worldwide, "we're living check to check right now," said Phil Flynn, senior market analyst at Alaron Trading.

"We're just one disaster away from a major price spike ... and it doesn't even have to be a big disaster," he said.

What changed between the first war and the second?

For one thing, refiners decided to cut costs by keeping less petroleum in storage. And oil companies and oil-rich countries "are more careful about their capital, and therefore don't build spare capacity" like they used to, said Steve Chazen, Occidental Petroleum Corp. chief financial officer and executive vice president for corporate development.

"That creates more volatility, so a cold winter -- or a revolution in Venezuela or some other place -- will have a bigger effect than it would have 10 or 15 years ago," Chazen said.

Meanwhile, the growing thirst for oil outpaced the discovery of oil reserves. Global consumption is 15% higher than in the summer of 1990, while proven reserves are 2% larger.

There hasn't been an oil shortage -- buyers have been able to get all they want, though they have sometimes had to pay a premium. Consumers paid one in California, where the prewar runup in crude values, along with stunted gasoline supplies from misfiring refineries, sent prices at the pump zipping to a record-high average of \$2.14 a gallon in mid-March.

To be sure, analysts say there has been a psychological "war premium" inflating prices. But there are also physical reasons for oil to be more expensive than it was a few months ago.

The invasion of Iraq eliminated the 1.7 million barrels a day that Baghdad had been exporting under a United Nations program, and the market is short another 1.3 million barrels a day or so because of civil unrest in Nigeria and underproduction in Venezuela.

The South American country is struggling to keep output at 2.5 million barrels a day, and aims to restore it to the more than 3 million barrels a day it was pumping before a nationwide strike in December crippled its oil industry.

Exports from Nigeria, which made up more than 5% of the United States' crude oil imports last year, have fallen by 40% since ethnic fighting forced the shutdown of some oil facilities two weeks ago.

Others in OPEC -- Iraq, Nigeria and Venezuela are among its 11 members -- have stepped in to fill the gap, as they did when exports from Iraq and Kuwait were halted 13 years ago.

But many are producing at full-tilt, at a pace that Rice's Jaffe says isn't sustainable. Saudi Arabia, Kuwait, the United Arab Emirates and four other nations are pumping 2.9 million barrels a day more than they were four months ago, according to government estimates. They will get a break if the war ends soon and Iraq resumes exporting, even modestly.

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"Things have been very fragile, which is why we've seen the prices where they've been," said Daniel Yergin, chairman of Cambridge Energy Research Associates Inc., a Cambridge, Mass.-based research firm near Boston. "But if there are no further disruptions of supply from other countries, then we'll see the supply-demand fundamentals improving week to week."

No matter how long the war lasts, however, it could be months before Iraq is producing at its full pre-invasion rate of 2.5 million barrels a day; it could take longer to prod output back to the 1990 level of 3.1 million barrels a day. And it's impossible to predict how production will fare in Venezuela and Nigeria, or whether war-fueled anti-American sentiment will surface in the world's oil-rich nations.

With global consumption at 78 million barrels a day and growing, the pressure is greater now than in the summer of 1990 to find new resources.

"Oil is a depleting business," said Occidental's Chazen. "It's not like a grocery store, where when you sell the groceries, you put some more in ... when you sell the oil, it's sort of gone."

There is huge potential in many places around the world, including Russia, West Africa and the Caspian Sea. "To replace some of the oil fields that are maturing, we are using technology that's allowed us to explore in very deep water, where we couldn't before," said ChevronTexaco Corp. spokesman Fred Gorell. "That's opened up new exploration opportunities all over the world, from West Africa to the Gulf of Mexico, Latin America and elsewhere."

In the United States, it isn't likely the steady decline in its oil output will be reversed; its big reserves were discovered and tapped long ago. Companies have diversified their nondomestic supplies, though, and today about 70% of imports come from countries outside the Persian Gulf, including Canada, Mexico, and the United Kingdom.

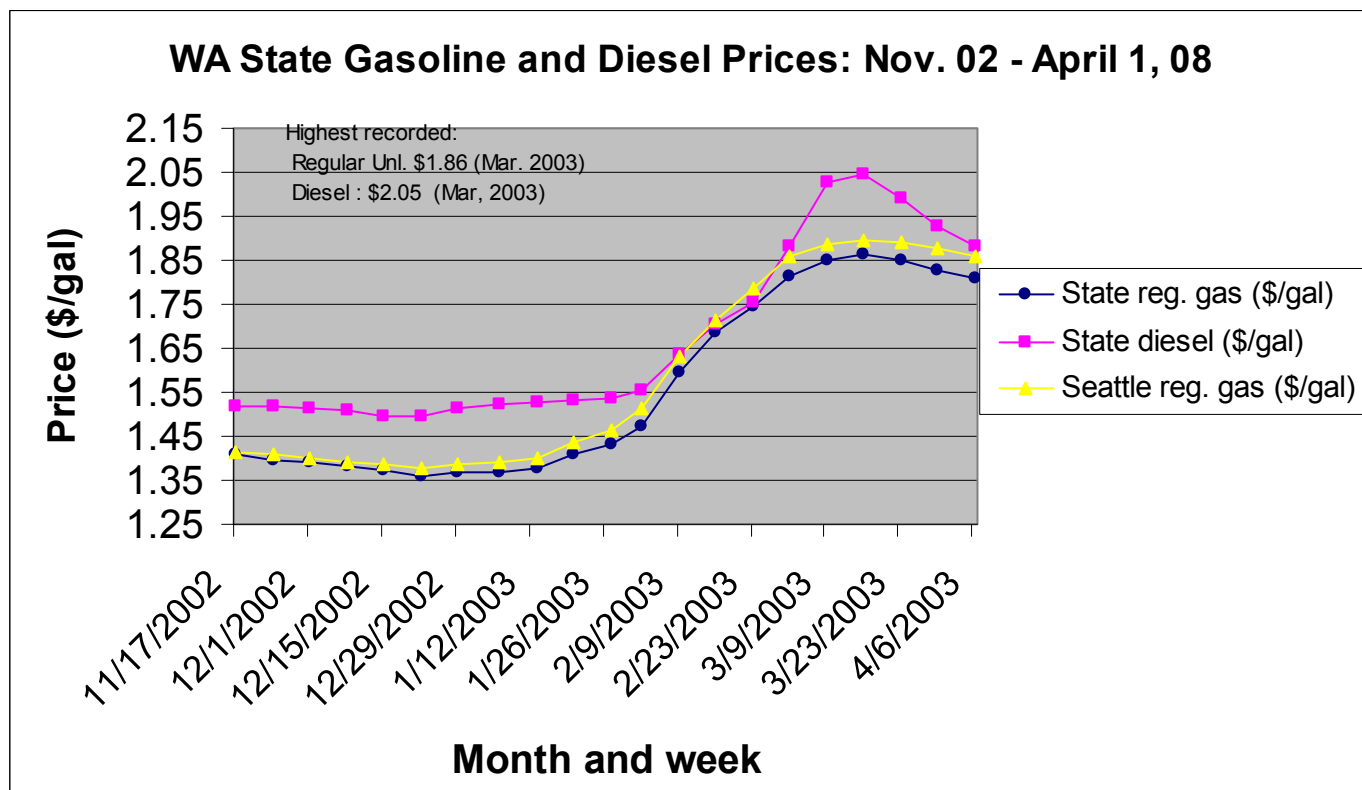
Still, relying so heavily on imported petroleum makes some in the industry uncomfortable. "Anytime you have to import products, whether it's a computer made in China or gasoline made in China, your society's more at risk," said John DeWitt, chairman and owner of J.E. DeWitt Inc., an oil and gas distributor in South El Monte.

The economic risk is often checked by OPEC, whose members own 60% of the world's proven reserves. The organization wants oil to be competitively priced, at between \$22 and \$28 a barrel, to keep alternative fuels from making inroads and ultimately reducing the world's dependence on petroleum.

Much of the time, OPEC manages its production so that prices stay on a steady course. But who knows what the next 13 years will bring? Underdogs today could be oil giants tomorrow, and a resurgent Iraq could disrupt OPEC's balancing act.

"One of the things about oil you can count on is that when everybody starts to get comfortable and they think they know what the future's going to be," Yergin said, "there comes a new surprise."

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- Weekly Range at Mid-C: \$28.75 – 39.75 per MWh, Ave. = \$34.5
- Approximate change from previous week \$+2.7 per MWh
- “Normal” price range, before 5/00 \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$28.63 per barrel (year ago: \$24.47)
- Seattle gasoline price (4/14) \$1.82 per gallon, see chart on pg. 6 (year ago \$1.49)
- Natural gas, Sumas Hub: \$4.39 per million British Thermal Units (year ago \$2.99)
- Approximate change from last week. Oil: + \$0.63 per barrel; Nat. gas: +\$0.14 MMBtu

3. California Electricity Situation

- CA ISO Alert Status
 - o A stage 2 alert was declared on July 10, 2002.
 - o Restricted maintenance warning declared, Sept. 23, 2001
 - o Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - o Gas bills are headed higher (Seattle PI, April 10)
 - o Energy market reversal sought (Sacramento Bee, Apr. 10)
 - o Better times could bring back energy woes (Sacramento Bee, Apr. 9)

4. River and Snowpack Information (Updated Apr 14, 2003)

- Observed March stream flow at The Dalles: 116% of average
- Observed April precipitation above the Dalles: 128% of average
- Observed 2003 snow pack as of April 7: 86% of average
- The latest forecast of Columbia River stream flows this January through June is 85.3 million acre feet, 79 percent of normal: National Weather Service Northwest River Forecast Center.

5. Energy Conservation Achievement (Updated Mar. 10, 2003)

- **State Agencies:** From January to December 2002 electrical usage was 7.6 % less and natural gas usage was 4.1% less compared to the same period in 2000.

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- Federal reservoir system storage: 46% full: Precipitation Oct. – to date, 94% of normal.
- Estimated winter (2002/03) load loss probability of 1%

7. Power Exchanged: (April 14)

- Average flow of power during the last 30 days
 - o California (exported to) 3599 MW
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 - o Net power export: 4387 MW

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Gas bills are headed higher

State commission approves 18% boost for Puget Sound Energy customers

By PAUL NYHAN, SEATTLE POST-INTELLIGENCER REPORTER

Puget Sound Energy customers will pay more for natural gas next month, as state regulators yesterday approved an 18 percent increase in typical rates.

The vote means Puget Sound Energy will add \$9.83 to the monthly bill of a typical customer, pushing it to \$62.40, according to the Washington Utilities and Transportation Commission.

The natural-gas rate increase was the latest bad news for local consumers, who last month saw prices for automobile gasoline reach record levels.

Puget Sound Energy asked for the rate increase in March, citing a high demand and decreasing supply of natural gas. The increase doesn't affect PSE's profits, but instead reflects higher wholesale natural gas prices.

Yesterday, the commission agreed to the increase, voting 3-0 to approve the new rates, which take effect today.

Although an additional \$10 a month for gas bills may not sound like a burden to many, it can be a serious jolt for some.

"Ten dollars will make a difference, a huge difference for these families," says Sarah Viguerie, a spokeswoman for Hopelink, which sponsors assistance programs for both heating bills and total energy bills for needy Eastside and North King County residents.

According to Viguerie, about 16 percent of Hopelink's clients who request energy-bill assistance use natural gas as their primary source of heat. On average, she says, those 16 percent earn \$930 per month. But for shelter alone, they pay on average \$740 per month.

The rate increase is only the latest dramatic shift, but not the largest, in natural gas prices in the past few years.

In 2002, utility natural gas prices plummeted about 27 percent, according to the Labor Department's consumer price index. In 2000 the same price index soared about 46 percent.

Drought, winter storms and rising oil prices all helped fuel that volatility in recent years, according to U.S. Bancorp Western economist John Mitchell. For example, the recent drought cut hydropower, increasing demand for natural gas from a pipeline system that perhaps lacked enough capacity to meet the growing demand, Mitchell said.

And some oil consumers switched to natural gas when the price of oil jumped at various points in the past few years, he added.

The rate spike "just goes to show how volatile the natural-gas markets are, and the dangers of relying so heavily on natural gas and fossil fuels," said Marc Krasnowsky, communications director for NW Energy Coalition, a Seattle-based alliance of environmental and civic groups.

Instead, Krasnowsky says, local, state and federal governments should provide greater incentives both to increase energy efficiency and to further develop renewable sources of energy, such as wind and solar power. The Utilities and Transportation Commission periodically looks forward to predict how much it expects natural gas will cost.

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The panel also scours past rates, offering credits if utilities found gas for less than expected and seeking reimbursements if they underestimated, according to a statement on its Web site, www.wutc.wa.gov. Homeowners aren't even taking the hardest hit in the latest rate increase, as commercial users will see their rates jump 21.4 percent and industrial users will absorb a 28.8 percent increase, Washington Utilities and Transportation spokesman Marilyn Meehan said.

Although your next bill will be higher, Puget Sound Energy rates, now at about 71 cents a thermal unit, are still well below the highs set in 2001 of 90 cents a unit.

Energy market reversal sought Lawmakers say their goal is the death of deregulation.

By John Hill -- Bee Capitol Bureau, Thursday, April 10, 2003

Seven years after the dawn of electricity deregulation in California, a group of influential lawmakers is proposing a dramatic sunset.

The state would return to regulated utilities, putting an emphatic halt to a disastrous experiment in market-based electricity, under a bill unveiled Wednesday.

Although details are still to be worked out, "at no time will we compromise on our goal of ending energy deregulation in California," said Sen. Joe Dunn, D-Santa Ana, one of the authors of SB 888. "We aren't mending it, we're ending it."

Sen. Debra Bowen, D-Marina Del Rey, called the current system a mishmash of conflicting elements cobbled together as the state tried to weather the energy crisis in 2000 and 2001. Bowen, also an author of SB 888, likened it to Frankenstein.

"We are not going to build on Frankenstein," she said. "We need to start over."

But the controversy that has swirled around the state's energy policy since 1996 is unlikely to abate for this proposal. A spokesman for energy producers called it "remonopolization," while a Republican author of a competing bill warned of severe consequences such as a sudden drop in electricity generation as private producers idled plants.

In essence, Dunn's bill would reverse the 1996 law that ushered in deregulation. The notorious AB 1890 created a new, free-wheeling market that four years later resulted in rolling power blackouts and sky-high prices, until the state stepped in to fill the shoes of the reeling utility companies.

"It sent prices through the roof," Bowen said. "It let generators manipulate the market like they were pulling strings on a marionette, and it allowed big customers to shift costs and force small businesses and residential customers to pick up far more than their share of the tab."

The bill would permanently end one of the centerpieces of deregulation: the ability of some customers, mostly large energy users, to make their own deals with generators. That "direct access" provision has been suspended, but there have been proposals to revive it.

The bill would also extend a moratorium on utility companies selling their power-generating assets from 2005 to 2010. Critics of deregulation point to the selloff of power plants by utility companies in the late 1990s as one of the triggers of the crisis.

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The bill would encourage utilities to invest in transmission lines and generation, reversing the deregulation law's incentives to sell to private companies. It commits ratepayers to covering the costs of prudent investment.

"What it does is return an obligation to serve to the utilities, in return for a guaranteed cost recovery," Dunn said. "It encourages utilities to return to generation."

Bowen said that despite apparent stability, the need for the bill is pressing.

"It has to happen this year because we need investments in capital facilities to be made beginning this year and next year, or we will have power shortages in 2006," she said.

Supporters say the bill, by ending direct access, would give utilities the ability once again to predict electricity demand, allowing them to sign long-term contracts to help keep down wholesale energy prices.

"We can have a mix of privately owned generation, publicly owned generation, utility-owned generation," Bowen said. "It doesn't matter as long as those who are buying are buying for a customer base they can reasonably estimate."

But critics said it would go too far in returning to the bad old days of regulation, throwing away the positive effects of more open markets.

"We basically believe that this remonopolization will short-circuit California's energy future," said Jan Smutny-Jones, executive director of Independent Energy Producers. "This bill isn't really necessary. It's very troubling, and I guess we'll spend the summer arguing about it."

It would return the state to the old model of bloated utilities making wasteful decisions and sticking customers with the bill, he said.

Severin Borenstein, director of the University of California Energy Institute, said that getting rid of direct access would be a mistake. He pointed out that California had some of the highest electricity rates in the nation even before deregulation.

"To say we're just going back to the old system because deregulation sucks strikes me as not a very careful analysis of what happened," he said.

A competing bill by Assemblyman Keith Richman, R-Northridge, would preserve direct access. But it would require large energy users that wanted to make deals with producers to give adequate notice to the utility and to have a contract with the generator. If the company returned early to the utility, it would have to cover the full cost of the utility providing power, probably at spot-market rates.

If power generators can't make contracts with big users, Richman said, they may choose to shut down their plants.

Consumer groups applauded the Dunn proposal.

Gov. Gray Davis stopped short of endorsing it but said, "I'm clearly leaning toward a more regulated environment than we have now."

PG&E issued a statement warning against premature action.

"The last thing the state needs is to lurch off in a new direction, without careful analysis and a full understanding of what the results will be," the statement said.

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Better Times Could Bring Back Energy Woes

By David Whitney, April 9, 2003

WASHINGTON -- California could face another energy crisis as soon as next year if the economy recovers, according to witnesses testifying at a House Government Reform subcommittee hearing Tuesday.

Terry Winter, head of the California Independent System Operator that runs the state power grid, said that with the economy limping along and the current state of supplies, he expects that there will be adequate electricity into 2006 and 2007.

But all that could change dramatically if the economy surges after the end of the war with Iraq, or if aging power plants shut down or the West suffers another low-water year.

"If our economy turns around, it can add back (demand) in a matter of months," Winter told subcommittee Chairman Doug Ose, R-Sacramento. "If the economy picks up, we could be getting into trouble in 2005, 2004 with bad weather."

The testimony came as state Sen. Joe Dunn, D-Santa Ana, prepared to unveil a measure aimed at unraveling provisions of the legislation that created the state's current system.

Dunn, Senate President Pro Tem John Burton, D-San Francisco, Sen. Debra Bowen, D-Redondo Beach, and Assembly members Darrell Steinberg, D-Sacramento, and Barbara Matthews, D-Tracy, are among those who plan to announce legislation today that would essentially repeal AB 1890 and what they call California's "failed experiment with energy deregulation."

Winter was among several witnesses to say that despite all of the hand-wringing over shortages and price gouging in 2000-2001, the basic market structure that contributed to the crisis has not changed significantly. That has dampened the interest of investors in building critically needed generating plants and transmission lines.

"The upheaval associated with the California crisis, not yet fully resolved, has chilled investment in the state," said Karen Tomcala, vice president of regulatory affairs for Pacific Gas and Electric Co.

Jan Smutny-Jones, executive director of Independent Energy Producers, warned that time is running out.

"The energy crisis was a convergence of a serious supply-and-demand imbalance, poor market design and an inadequate regulatory response," he said. "It need not and should not be repeated."

But the witnesses said the process of crafting the fixes to California's market structure is dragging on longer than most had expected. Winter's organization, California ISO, proposed changes to state and federal regulators to repair the flaws in the state's electricity deregulation plan, including building in prohibitions on market manipulation that allowed marketers to drive up wholesale prices.

That plan was called Market Design 2002, but it now appears that very little of it will be in force until 2004 at the earliest. Even then, it may not be enough, some witnesses said.

"I don't see it providing incentives for investment," said George Fraser, general manager of the Northern California Power Agency. "There's nothing in it on transmission resources and adequacy."

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Pat Wood, chairman of the Federal Energy Regulatory Commission, said that California depends more than any other state on electricity and natural gas supplies from outside its borders.

Until the state builds new generating plants and transmission lines, and recasts its regulation of retail power sales so that residential and business customers respond promptly to rising wholesale rates through conservation, Wood said nothing can "protect California's customers from the inevitable problems that will result."

Winter said California ISO projects that the state will have 3,246 megawatts of power in excess of peak demand this summer -- or roughly the output of three nuclear power plants.

"It looks like we're going to be able to make it this summer," he said. But next year could be a problem if the economy grows and Silicon Valley's high-tech industry moves back into full production.

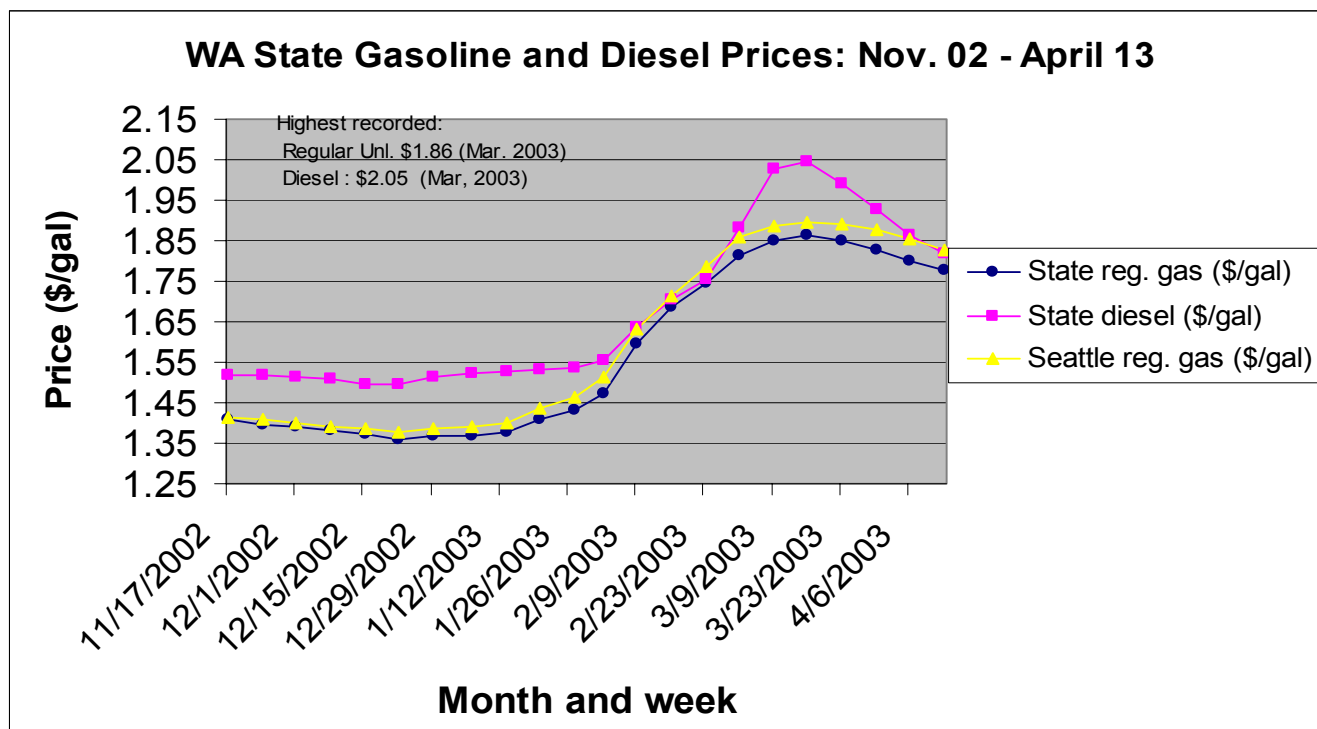
"Looking beyond that, I have considerable concerns," Winter said.

Gary Ackerman, head of the Western Power Trading Forum, said there is additional power generation in Arizona and Mexico but it won't be of much help because there are no transmission lines to bring the power into the state.

Ose said that this poses an unwelcome dilemma.

"I want the economy to come back," he said. "But if we get economic growth of 2.8 or 3 percent, what I hear you saying is that we'll be in a box."

"I would concur," Winter said.



Weekly Energy Status Report

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- Power Pool peak load (Monday, 4/22): 41,414 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

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- Natural gas, Sumas Hub: \$4.76 per million British Thermal Units (year ago \$2.99)
- Approximate change from last week. Oil: + \$1.08 per barrel; Nat. gas: +\$0.37 MMBtu

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- Energy News Headlines from California and the Nation
 - o Region feeling pain of higher priced power (Spokesman review, April 19)
 - o Traffic light bulb signal big changes (Sacramento Bee, Apr. 15)
 - o Ford breaks pledge on SUV fuel use (Wall Street Journal, Apr. 18)

4. River and Snowpack Information (Updated Apr 21, 2003)

- Observed March stream flow at The Dalles: 116% of average
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Region feeling pain of higher-priced power; BPA price hikes causing economic hardship, speakers contend

Electricity prices that soared and swooped repeatedly two years ago have ushered in a new risk of doing business in the Pacific Northwest.

Unfortunately, cheap and stable electricity supplies that had been central to building the regional economy have been replaced by a market that can double in days and retreat just as quickly.

Speaking to about 60 people attending the Northwest Energy Conference on Monday, Steve Wright, the Bonneville Power Administration's top official, said those price swings may be permanent.

And that makes regaining the region's electricity entitlement more difficult. It was stripped by failed deregulation experiments in states like California and Montana, and by now-unfolding market manipulations by the likes of Enron Corp. Untimely drought and poor power-planning strategies also played a role.

Bonneville is trying to survive high-priced contracts it signed during the crisis, and eventually help return the region's competitive advantage, Wright said.

The plan is painful. Already, a 46 percent rate hike was passed along in October 2001. That was credited by many for putting the region's power-intensive aluminum industry out of business.

Now the agency is pursuing another 15 percent increase this year as it seeks to stay solvent and deal with the continuing aftermath of the 2001 energy crisis.

Wright's "passing the pig through the python" approach prompted one person to recommend finding a laxative.

Plenty of people are peeved with Bonneville's rate increases.

Ken Canon, managing director of the Association of Public Agency Customers based in Portland, said his members are struggling to cope with Bonneville's rate hikes.

The APAC represents 36 major companies in activities such as pulp and paper, chemicals, aerospace and lumber.

Utilities across the region handled the energy crisis in different ways. Some ended with increases of 4 percent. Others initiated rate hikes in the double digits.

Canon said Bonneville is in need of fundamental change and needs stronger oversight than that of the Federal Energy Regulatory Commission, which only asks: "Is Bonneville getting enough money?"

Echoing a common complaint of business, Canon said higher rates don't necessarily mean higher revenues. A better approach, he said, is more customers paying less to reach equal or better sales.

Kris Mikkelsen, CEO of Inland Power and Light, said during a panel discussion that Bonneville needed to be run more like a business.

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She said the agency has squandered money on unproven programs to resuscitate salmon runs and allowed environmentalists to degrade the generation capabilities of the massive Columbia and Snake River dams.

Bonneville markets about 45 percent of the power in the Northwest. What it says and does as an agency has tremendous implications for families and businesses from the suburbs of Portland to irrigators in Central Washington and manufacturers in Montana.

The rest of the power in the region is generated and sold from public utility districts and investor-owned utilities such as Avista Corp. in Spokane.

The conference continues today with speeches expected by Sens. Patty Murray and Maria Cantwell.

Traffic-light bulb changes signal big cost savings

By Matthew Barrows, Tuesday, April 15, 2003

When California was in the throes of an energy crisis three summers ago, transportation officials took a hard look at the more than 2 million traffic signals across the state.

Spurred on by a state incentive program, cities and counties began tossing out the electricity-hungry incandescent bulbs inside the signals, replacing them with more efficient light-emitting diodes, or LEDs.

And so far, the shift has paid big dividends.

The California Energy Commission estimates the new LED traffic signals have reduced electrical demand statewide by 17 megawatts, enough to power 17,000 homes for a year.

"That's a lot of savings for a relatively simple, no-brainer type of program," said Claudia Chandler, spokeswoman for the Energy Commission.

The biggest winner so far has been the state Department of Transportation.

On Monday, a Caltrans worker in a cherry picker leaned over and inserted LED lights into a traffic signal at the west end of the Tower Bridge, the 200,000th LED unit Caltrans has installed.

The milestone also earned the agency a \$667,000 rebate check from Pacific Gas and Electric, part of an incentive program by power companies to reward government agencies for energy conservation.

PG&E has issued \$36 million in rebates, including \$79,000 to the city of West Sacramento, \$82,000 to Woodland and \$2,800 to Rocklin.

"The checks went all the way from a couple of thousand dollars to the level of Caltrans," said PG&E spokeswoman Christy Dennis.

The Sacramento Municipal Utility District has run a similar LED-incentive program in Sacramento County.

Both the city and county of Sacramento began installing LED signals in the late 1990s and have earned more than \$200,000 each in incentives so far.

Converting to LEDs also has brought down electricity bills and maintenance costs.

With incandescent units, work crews must go out every 1 1/2 years to replace the bulbs. LEDs, on the other hand, last eight years on average.

Sacramento County officials estimate they save \$250,000 annually on electricity spending while the city saves \$298,000 a year. Caltrans officials say LEDs have reduced energy and maintenance costs by \$5.7 million annually.

Incandescent bulbs are energy gluttons because most of the electricity required to illuminate a bulb is wasted in heat.

With LEDs, electricity fires up a gas that turns a desired color -- in the case of traffic lights, red, green or amber.

Most counties and municipalities across the state began their LED program by replacing only the red lights in traffic signals, which are on 60 percent of the time.

As the price of green and amber LEDs has decreased, agencies are now going back and replacing all three colors.

Ford Breaks Pledge on SUV Fuel Use --- Goal of 25% Improvement Is Hit by Weak Finances, Consumers' Preferences

Ford Motor Co. won't meet a 2005 deadline it set for itself to improve the fuel economy of its popular lineup of sport-utility vehicles by 25%. The failure of the three-year-old goal is expected to increase pressure on Washington to mandate improved vehicle fuel efficiencies.

Ford officials said that fulfilling the fuel-economy pledge, nicknamed within the company "25 in five," proved more difficult than the company had anticipated, particularly as the No. 2 automaker's financial position weakened. Some technologies that Ford has been working on haven't panned out as expected, they said. Moreover, to improve the federal fuel-economy rating of its entire fleet of "light trucks" -- SUVs, pickup trucks and minivans -- Ford must sell more of its smaller and more fuel-efficient models. But consumers continue to snap up Ford's bigger, and more fuel-thirsty, SUVs, the officials said.

The federal government's Corporate Average Fuel Economy, or CAFE, rules were first set in the 1970s and last updated in the mid-1990s. The rules, which mandate average fuel economy throughout an auto manufacturer's total fleet, currently set one standard of 27.5 miles per gallon for cars, and another of 20.7 mpg for trucks. When the rules were devised, trucks were considered brawny workhorses that shouldn't be held to the same standard as passenger vehicles.

But in recent years, light trucks have soared in popularity as everyday family transportation, driving down the fuel economy of the entire new-vehicle fleet in the U.S. to about 20 mpg, its lowest level in two decades. That has fanned criticism that the fuel-economy rules' special dispensation for trucks is outdated.

When Ford made its fuel-economy pledge, General Motors Corp. and Daimler Chrysler AG's Chrysler division indicated they would keep up with Ford. The appearance of an environmental race among the Big Three helped the industry last spring block a Senate measure to nearly double fuel-economy standards for light trucks. This year, the Bush administration proposed a more moderate

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increase in the standard, which auto company officials privately conceded they will be able to meet without too much trouble.

Ford officials said they are still trying to make their vehicles go farther on a gallon of gas. Ray Day, a Ford spokesman, said the company is looking beyond SUVs to improve the fuel efficiency of its entire lineup -- though he wouldn't offer specific dates. "With some vehicles, we are going to achieve 10%. With some vehicles, we are going to achieve 20%. Some will achieve 30%," Mr. Day said. "What we are trying to do is go fleetwide for what is best for our customers."

But environmental activists lashed out at Ford for reneging on a promise that they lauded three years ago as the most significant "green" step by an auto maker in years. They said they will use the incident as ammunition in a debate in Washington over whether the government should rewrite the federal fuel-economy rules for light trucks. The Senate is set to take up that fight as it debates an energy bill amid a war in Iraq that has focused attention on dependence on foreign oil.

"This really points to why we need legislation to step in on this," said David Friedman, a senior analyst for the Union of Concerned Scientists, an environmentalist group that has been pushing to ratchet up the fuel-economy standards. "Let's make sure those vehicles get on the road, and we can do something about reducing oil dependence."

Proposals are floating around Washington to rewrite the fuel-economy rules more fundamentally. The Bush administration is considering doing away with the distinction between cars and trucks, and pegging the fuel-economy requirements to a vehicle's size or weight. One that's small or light would be required to go farther on a gallon of fuel than one that's big or heavy.

But environmentalists say this approach could create an incentive for an automaker to add extra features to a vehicle to make it heavier -- so the vehicle would be allowed under the rule to consume more fuel.

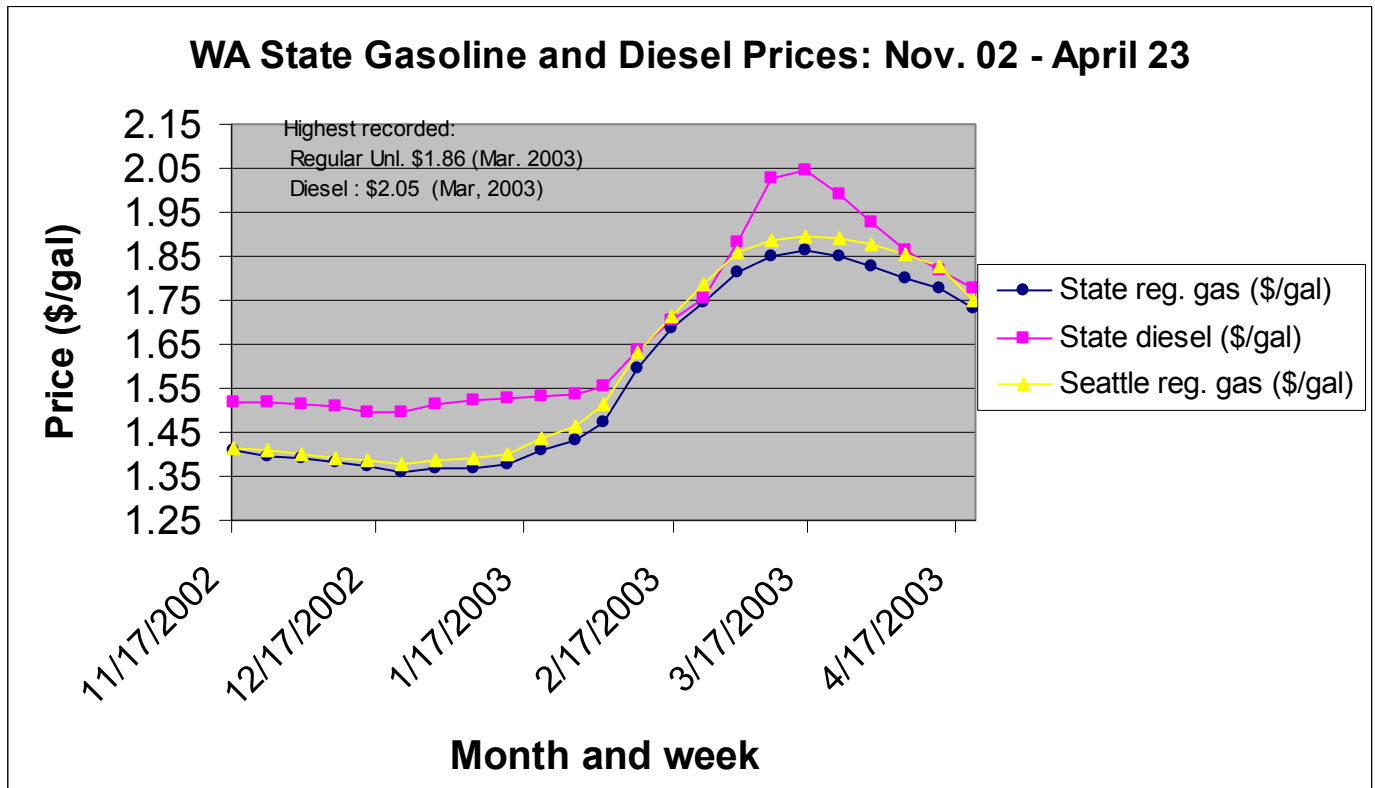
A bill introduced last week by Sen. Dick Durbin (D., Ill.) would jettison the car-truck distinction in favor of two new categories: passenger vehicles and non-passenger vehicles. The former would have to average 40 mpg and the latter 27.5 mpg by 2015.

The distinction, however, could prove ripe for gaming by the auto industry. Several pickup trucks now come with four doors and full-sized cargo areas in the back. "That is probably, predictably, the next loophole. We'll start to have SUVs with a three-foot bed on the back," concedes a Democratic staffer involved in drafting the Durbin bill. But "you have to draw the line somewhere."

Perhaps no type of vehicle blurs the line between car and truck like a new breed dubbed the "crossover." Although these models often are based on car designs, the auto industry is pushing to get them classified for fuel-economy purposes under the more-permissive truck heading.

Those moves make John DeCicco, a senior fellow with the green group Environmental Defense, wary of the Durbin bill. "The ability of the car companies and the designers to morph designs and blur lines, it's inherently what they try to do."

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 - o No Easy way out of energy contracts (LA Times, April 25)
 - o Energy department pledges money to Tulalips for renewable energy (Puget Sound Business Journal, Apr. 24)
 - o Northwest power strikes deal with Enron (Seattle PI, April 29)

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No Easy Out on Energy Contracts

State faces legal and political hurdles in seeking to void power deals made in 2000-01.

By Jonathan Peterson, Times Staff Writer

WASHINGTON -- In one of the last battles remaining from the energy crisis, California and other big power buyers face daunting hurdles in their bid to overturn more than \$17 billion in electricity contracts signed during the market meltdown of 2000 and 2001.

California contends the contracts should be tossed aside because they were negotiated in a market perverted by energy firm shenanigans. Fearful that electricity prices would keep skyrocketing during that time, California and power buyers in other Western states locked into long-term deals at rates that in some cases were double what they would pay now.

But legal precedent, politics and federal policy are stacking up as major obstacles for those who seek to overturn the contracts. And although the dollar stakes are high, the conflict also highlights broader questions on the permanence of contracts and underscores the still-unhealed wounds from the energy debacle.

Two out of three members of the Federal Energy Regulatory Commission have signaled their reluctance to toss aside dozens of energy deals in California and other Western states, some of which guarantee power more than a decade into the future.

FERC member Nora Mead Brownell has argued for preserving the "sanctity" of contracts, and suggests that the already troubled energy industry could lose even more investors if disgruntled buyers are allowed to break contracts.

That view is challenged by Sen. Dianne Feinstein (D-Calif.).

"When you say that a contract negotiated under bogus conditions is sacrosanct, that's just dreadful," Feinstein said.

Feinstein and others argue that the reality of a wildly gyrating energy market — now linked at least in part to misconduct by suppliers and traders — should overcome the fine print of contracts that public officials signed in a desperate bid to ensure stable power supplies.

This side is quick to cite a provision of the Federal Power Act of 1935 declaring that prices should be "just and reasonable." In addition, FERC staff recently concluded there was a "statistically significant" correlation between high spot market prices and high-priced long-term contracts in 2000-01.

Nonetheless, companies that signed such contracts say they have delivered what officials asked for, often after investing millions of dollars in new facilities, and that there is no proof their prices are out of line.

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"We feel it's inappropriate for them to request this," said Michael R. Niggli, president of **Sempra Energy Resources**, which holds a 10-year, \$6.6-billion contract to provide electricity to California. A "long, long" legal history and tradition backs up the notion that contracts should be honored, he said.

Niggli and others say those who wish to escape contracts should meet a separate, stiffer legal test arising from disputes over long-term contracts for natural gas and electricity in the 1950s.

In a decision that became known as the Mobile-Sierra Doctrine, the U.S. Supreme Court in 1956 set an extremely high "public interest" standard for tossing out such contracts. Under this standard, for example, a utility would have to show, among other things, that abiding by the deal could put it out of business.

Defenders of the contracts also maintain that discarding them would create a new sense of risk for investors and discourage much-needed energy projects. They warn that if contracts are seen as less than binding, a reluctance to invest ultimately could reverberate negatively through the broader economy.

"If you stop enforcing contracts, lenders say, 'I really don't want to invest in that particular business,'" said Phillip Lookadoo, an attorney in Washington with Thelen Reid & Priest who represents power companies that have long-term contracts with California. "That's the cost to the overall economy."

At the peak of the energy crisis, California entered into about \$42 billion in long-term contracts as a way to avoid the out-of-whack short-term market and ensure that electricity would continue to flow.

Since then, some deals have expired or been voluntarily renegotiated, and some of the costs have been paid, with the result that California's portfolio is valued at about \$35 billion, according to the state Department of Water Resources.

Of that amount, about \$15.7 billion remains in dispute, including deals the water resources agency cut with Sempra, **Allegheny Energy Supply**, **Dynegy Inc.**, **Coral Power** and others. Other jurisdictions are contesting more than \$1 billion in remaining contracts. Initially, the contracts in dispute totaled about \$45 billion.

The agency bought power for the state's investor-owned utilities at the height of the energy crisis, when the utilities no longer could afford to buy electricity. Some of those contracts have since been assigned to the utilities.

Efforts to renegotiate the remaining deals have proved elusive. California and Sempra, for example, have come close to agreement on reworking a major contract three times. The San Diego-based company, which has invested more than \$1 billion to produce the power, says that it has made "good faith" efforts to consider changes the state has asked for but also that its prices are reasonable.

"There will be times when the price you could pay on the market is lower than our contract, and there will be times when the price you could pay is higher than our contract," Niggli said, adding that the firm previously has offered contract changes that would save the state \$1.5 billion over the long term.

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Allegheny, which also is at odds with the state, says its contract is cheaper than the average for the long-term deals but that it nonetheless is willing to talk.

"Despite the fact that we have a fair and binding contract, we've been willing to renegotiate — and continue to be willing to renegotiate — a mutually beneficial settlement with California," said Janice Lantz, communications manager for Allegheny in Monroeville, Pa., which has an 11-year contract with California valued at more than \$4.3 billion.

What may pain California politicians who pushed for the deals is that Allegheny's comparatively low-cost contract at \$61 per megawatt-hour may have seemed like a bargain when spot prices exceeded \$300 per megawatt-hour. Although Allegheny says its price remains several dollars per hour lower than the average, it now contrasts with shorter-term prices in the \$30 range.

A final obstacle to overturning the contracts could be political. Two of the three members of FERC are Republicans, and the GOP generally opposes meddling with contracts after they have been signed.

In fact, the House Energy and Commerce Committee recently included a strong protection of future contracts in the House energy bill. The provision endorses the Mobile-Sierra Doctrine. Some saw the House bill as a signal to FERC. In any case, there was nothing secret about it.

"This is not language that was slipped into the bill in the dead of night," said Ken Johnson, spokesman for the House Energy and Commerce Committee. "This is a provision that was thoroughly, exhaustively and passionately debated before being approved."

Federal regulators recently told California that it would have a last chance to argue for contract abrogation in May. But a preview may have come last week.

At a hearing before FERC, parties varying from **Southern California Water Co.** and a utility district in Snohomish County, Wash., argued that the contracts were unfair and should not stand. The only verbal support they gained was from the commission's lone Democrat, William L. Massey.

Paul Pantano, counsel for **Morgan Stanley Capital Group Inc.**, which holds a contested long-term contract with Snohomish County, sought to shred the arguments of those who want the contracts renegotiated.

"Once you cut through all the hyperbole, this is really a case of buyer's remorse," Pantano said.

Energy Department pledges money to Tulalips for renewable energy project

The Tulalip Tribes of Washington in Snohomish County is among eight Native American tribes to share in a \$1.3 million grant from the U.S. Department of Energy for developing renewable energy technologies on tribal land.

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The Tulalips will get \$378,794 to fund a feasibility study to develop one or more biogas-generation facilities to convert manure and other biomass resources into electricity, according to an announcement by Secretary of Energy Spencer Abraham.

At that level of funding, the Tulalip project is set to get more than 29 percent of the grant total, the highest share of any of the tribal projects. But the tribe also would contribute \$129,818 to the project, while most of the other projects do not call for tribal contributions, and those that do are relatively small.

"The biogas-generation facility will help supply heat to tribal nursery and greenhouse operations and improve water quality in Snohomish Watershed streams and rivers," Abraham said in a press release.

Northwest Power Strikes Deal With Enron

By MATTHEW DALY

WASHINGTON -- The Justice Department approved an agreement Tuesday that will allow the Bonneville Power Administration to terminate nearly \$500 million worth of high-priced power contracts with bankrupt Enron Corp.

Officials at the utility based in Portland, Ore., say the deal should save Northwestern ratepayers as much \$200 million and help reduce a projected 15 percent rate increase by about 2 percentage points.

Bonneville, a federal agency, supplies about 45 percent of the Northwest's energy by marketing power from 31 federal dams and several nonfederal power projects.

Under the deal, BPA will pay Enron's creditors \$99 million, in exchange for terminating long-term contracts that could have required the utility to pay nearly \$500 million through 2006, when the contracts were due to expire.

BPA officials have complained that Enron's market manipulation inflated the price for electricity far above normal market rates, which turned the contracts into a financial nightmare.

The deal was announced by Democratic Sens. Maria Cantwell of Washington and Ron Wyden of Oregon, who had pushed the Bush administration to allow BPA to get out of the Enron contracts. As a federal agency, any settlement entered into by BPA must be approved by the Justice Department.

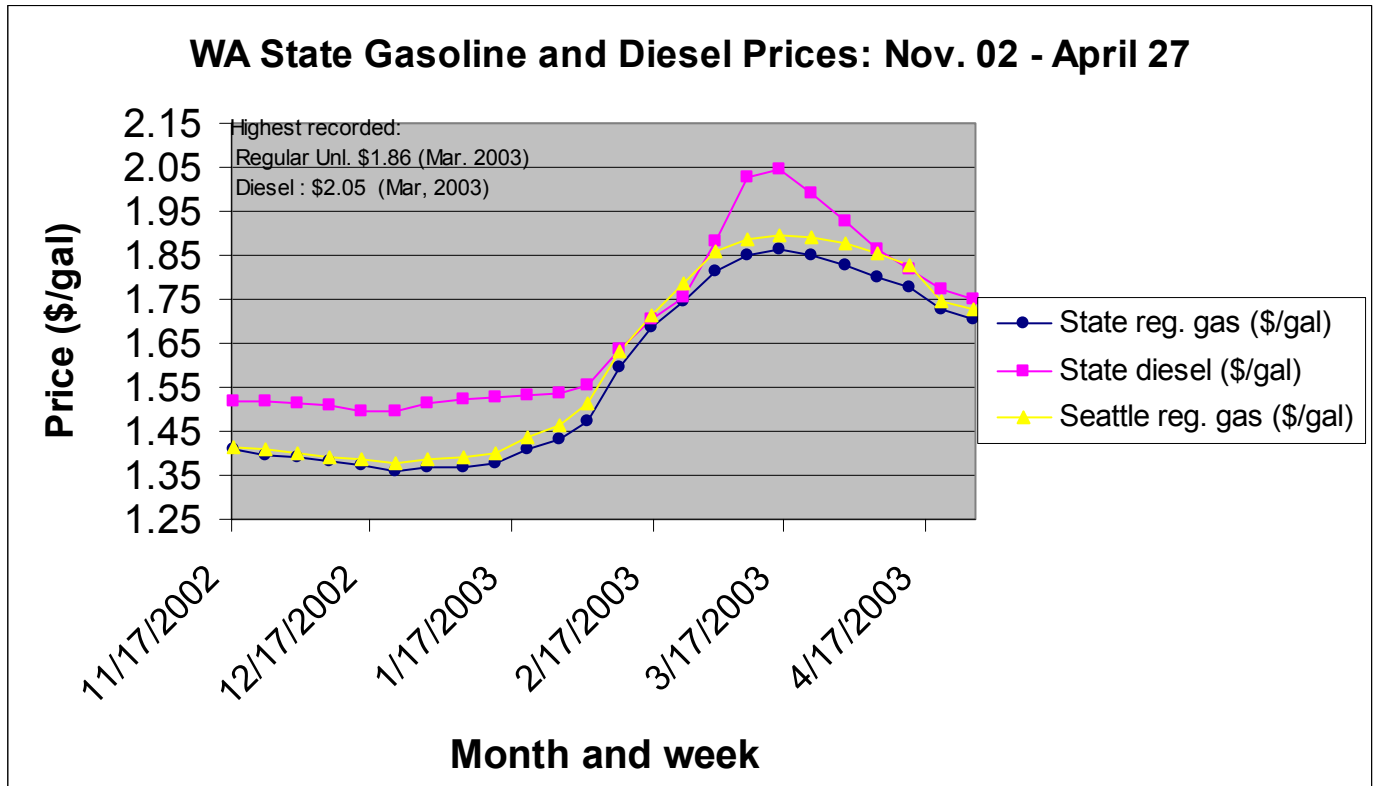
"Enron robbed the Northwest during the energy crisis, and we are finally beginning to get out of these over inflated deals," Cantwell said. "But our fight is not over; there are still contracts between Enron and Northwest utilities that must be terminated" by the Federal Energy Regulatory Commission.

BPA administrator Steve Wright called the deal a significant step as the agency moves to cut costs and restructure its finances in the face of severe criticism by Congress about overspending and other financial woes. The General Accounting Office - the investigative arm of Congress - said last week it is auditing Bonneville's finances.

"The agreement avoids high legal costs and ... provides certainty at a moment when the Northwest economy needs it most," Wright said.

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Specifically, the deal saves about \$40 million in immediate contracts with Enron and resolves legal uncertainty about an additional \$150 million in contracts that BPA unilaterally terminated with the Houston-based energy trader, Wright said.



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When they see potentially dangerous voltage sags or overloads building on transmission lines, ISO workers can draw on earlier offers to "inc" or "dec," which at times can mean urgent phone calls to plant operators, pleading frantically for adjustments.

Complicating the process: Grid operators have to match the power generated with power used or see the system crash.

Once power has been ordered, pulling a given amount of power off the system -- a dec -- can be costly. Under rules that the ISO repeatedly has asked the Federal Energy Regulatory Commission to change, power plants can be paid up to \$30 a megawatt hour not to run.

That amount doesn't always reflect the actual cost of holding power once a plant is cranked up to produce it. The ISO wants to change the rules to base dec payments largely on costs the power plant incurs for not running.

FERC repeatedly has declined, saying virtually everyone, including the ISO, agrees the underlying market structure is flawed and has to be overhauled. Tweak this element now, some FERC officials fear, and the ISO will postpone real changes even longer.

"The real fundamental problem is that the Cal-ISO is accepting infeasible schedules," said FERC economist Derek Bandera.

The new power generated should translate into falling prices, Bandera said. Instead, the new generation is creating a potential crisis. "That just illustrates how bad the market design is," he said.

California now is ringed with new and nearly completed power plants in Nevada, Arizona and Mexico. They almost all have excess output to sell, and so will be battling for space on transmission lines.

The two plants just south of the U.S.-Mexico border are especially troublesome because they are within one of the ISO zones, even though they're in another country. That means they could submit schedules that would congest transmission lines and then, in real time, demand payments for taking off power for hundreds of megawatts, 12 hours a day or more, virtually daily.

Unless FERC steps in, "the cost of this dec issue could be quite significant and we are concerned about it," said Keith Casey, ISO manager of market analysis and mitigation.

The ISO has told federal regulators the dec game could cost \$50 million a year, while some internal ISO models predict it could go up to \$120 million annually.

But some consumer advocates believe the ISO is overstating the case to encourage construction of more high voltage lines, which would ease congestion.

Some FERC officials believe the numbers are a ploy to get more regulations based on costs -- an approach that makes free-market advocates at FERC recoil.

"I am just not willing to accept worst-case scenarios: The sky is falling, and I am the big bad wolf because I am not letting them protect themselves," said Mike Coleman, a FERC associate director for infrastructure development. "We have to wait and see what unfolds this summer."

Some suggest the owners of the new plants could be shamed into not exploiting the system. "It certainly fails the front-page test to pay generators not to generate," said one energy company official.

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People won't regularly use the dec game, said Ziad Alaywan, ISO director of market operations, because they'll want to avoid the bad publicity.

Alaywan hopes that before June 1, when the Mexico plants go into full service if legal challenges are resolved, he can work out informal agreements with the plant owners not to overcrowd the lines.

Sempra Energy, which owns the San Diego Gas and Electric Co. as well as one of the Mexico power plants, declined to comment. The ISO is doing a disservice to plant owners, said Jim Kritikson, a consultant for InterGen, a venture co-owned by Shell and Bechtel which has built the other Mexico plant. "They're assuming the guilt of generators before they've even had a chance to get online," he said.

Kritikson said he doubts InterGen would ever ask to get paid for not running.

The state is still grappling with how it should plan new power lines, with an Energy Commission report on the most critical needs due out later this year.

By then, California may also have a sense of who is playing the dec game, and how much transmission congestion will cost the state's consumers.

Natural gas outlook: costly

Jim Mackinnon, Akron Beacon Journal - *May 4, 2003*

Natural gas supplies, already sharply depleted by a frigid winter that drove up heating usage, will come under even more pressure if prolonged hot weather this summer causes natural gas-powered ``peaking" electric plants to fire up more than usual to meet air-conditioning demand. Those plants use a lot of natural gas and may be needed for sustained periods just when gas companies want to fill their underground storage systems ahead of next winter.

And it looks like Mother Nature may not provide much help. The latest National Weather Service long-range outlook says it is likely much of the nation will have above-normal temperatures this summer.

The result may be higher-than typical prices for natural gas users, though producers and sellers such as Dominion East Ohio say we won't have to worry about running out of the fuel.

``This past winter is going to have a lot of repercussions," said Jeff Murphy, director of pricing and regulatory affairs for Dominion East Ohio. ``All things considered, we're seeing a lot of upward pressure on prices."

Basically, that means tight supply, low production and increasing demand.

And while that may be good for natural gas producers, it's not for those who buy gas.

The latest federal information shows 741 billion cubic feet of natural gas in underground storage nationally as of April 24 -- well below the more than 1.6 trillion cubic feet stored in the same period a year ago. The five-year average of natural gas storage for this time of year is about 1.3 trillion cubic feet, according to the Energy Information Administration.

To get some idea of how weather can play havoc with natural gas supplies as well as household heating bills, look at Dominion East Ohio customers.

They burned a lot more gas on average this past winter than during the previous year, Dominion East Ohio spokesman Neil Durbin said.

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The average Northeast Ohio household from December 2001 through February 2002 burned 42.3 thousand cubic feet of gas, he said. From December 2002 through February this year, that average household burned 63.5 thousand cubic feet of gas, he said.

The end result: Way less natural gas left in underground storage by the time spring arrived.

“We're going to have to scramble to put gas in the ground. That will keep gas prices high,” said Chuck Faber, director of corporate development for Twinsburg-based natural gas and oil explorer North Coast Energy Inc. The natural gas industry will want to have about three trillion cubic feet of gas stored in time for next winter to be comfortable, he said.

“We could see \$7 (wholesale natural) gas in the summertime,” Faber said. The wholesale price now is about \$5 per thousand cubic feet. Residential customers pay more -- there are taxes, and utilities tack on additional charges for transporting and delivering the gas to households, which is where they make their profit.

There could be price spikes, too, if hurricanes temporarily shut down natural gas production platforms in the Gulf of Mexico, Faber said.

Gas producers have been increasing well drilling, but North Coast and other companies remain reluctant to ramp up production dramatically, Faber said. The cost of drilling a 4,000- to 5,000-foot-deep well is between \$160,000 to \$180,000, while a 10,000-foot well can cost between \$1.5 million and \$2 million, he said.

In addition, it's been harder for drillers to get financing to put in new wells, said FirstEnergy Corp. spokeswoman Kristen Baird. The Akron utility produces, buys and sells natural gas for its own gas-fired peaking plants as well as for retail customers.

“We anticipate pricing will continue to be on the high end,” Baird said.

The Energy Information Administration reports that natural gas production in the U.S. fell by 2.6 percent last year, but should increase by 1.5 percent this year. Even so, demand is expected to increase by 2.7 percent this year compared to last.

“The big gas wells are being depleted,” said Peggy Laramie, spokeswoman for the American Gas Association, which represents the natural gas utility industry.

Because of supply and demand imbalances, the association feels that natural gas prices are going to fluctuate a lot more than they did in the late 1990s, Laramie said. To increase supply, the association and its members are lobbying the federal government to relax regulations and allow them to drill for natural gas in places now off limits to them.

The federal government, meanwhile, is looking to ensure that companies don't engage in price fixing or other illegal means to boost prices and profits.

It's not all bad news for consumers out there.

John Tobin of the Colorado-based Energy Literacy Project said North America gas supplies are vast. But while the supply is there, getting it to customers by drilling and putting it in pipelines is proving more difficult, he said.

Tobin said he thinks competition from lower petroleum prices will help moderate natural gas prices. Energy sources have to compete against each other, he said.

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But Faber at North Coast Energy said his outlook is that natural gas will trade and sell at a premium relative to oil, even though traditionally oil has been more expensive than gas. Part of that has to do with the increased demand for gas, which burns more cleanly than oil, and the ability of oil to be more easily transported, he said.

Wellhead prices -- basically, wholesale prices -- are well down from their peaks in February and early March.

Nationally, the wellhead price of natural gas in the 2002-2003 winter heating season averaged \$4.44 per thousand cubic feet, \$2.08 more than the previous winter, according to federal data.

But don't expect to see the return of \$2 per thousand cubic feet wellhead prices, energy analysts and others said. They estimate wellhead natural gas will range between \$4.50 and \$5.50 per thousand cubic feet through at least the summer and probably into 2004.

For huge industrial consumers of natural gas, the higher costs eat away at profits.

Besides its use in heating buildings and making electricity, natural gas is a key component for fertilizer makers, polymer companies and the steel industry.

The Timken Co. burns about 8 billion cubic feet of natural gas a year, said Peggy Claytor, senior government affairs specialist for the Canton maker of bearings and specialty steel. Claytor, the company's former energy purchaser, specializes in energy and environment issues for Timken.

About 92 percent of the gas Timken uses is used to heat treat bearings and steel, with the remainder used for such things as heating boilers, she said.

While Timken and other companies can hedge the financial costs of gas, they often have to eat the higher energy costs, she said,

``You do not have the luxury of shutting down (a plant) because you have customer obligations to meet," Claytor said.

The higher prices have been a strong incentive for Timken and other companies to become more energy efficient, she said. Timken's changes have lowered its natural gas consumption by 34 percent, she said.

The recession and slow economic growth have also moderated natural gas prices by reducing industrial and business demand, she said.

``An economic recovery will put more pressure on prices," Claytor said. ``In a sense, we are fortunate that our economic recovery has been anemic."

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 5/27): 43,131 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: \$29.5 – 40 per MWh, Ave. = \$34.5
- Approximate change from previous week \$+0.7 per MWh
- “Normal” price range, before 5/00 \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$28.58 per barrel (year ago: \$24.47)
- Seattle gasoline price (5/27) \$1.59 per gallon (year ago \$1.48)
- Natural gas, Sumas Hub: \$5.04 per million British Thermal Units (year ago \$2.74)
- Approximate change from last week. Oil: -0.25per barrel; Nat. gas: -.01 MMBtu

3. California Electricity Situation

- CA ISO Alert Status
 - o A stage 2 alert was declared on July 10, 2002.
 - o Restricted maintenance warning declared, Sept. 23, 2001
 - o Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - o Daimler-Chrysler, UPS, federal government team up on fuel cell project (AP, May 20)
 - o SN CRAC settlement talks fail (Clearing Up, May 19)
 - o Greenspan says natural gas supply is serious problem (Reuters, May 21)

4. River and Snowpack Information (Updated May 20, 2003)

- Observed April stream flow at The Dalles: 97.4% of average
- Observed May precipitation above the Dalles: 114% of average
- Observed 2003 snow pack as of May 7: 89% of average
- The latest forecast of Columbia River stream flows this January through July is 85.3 million acre feet, 79 percent of normal: National Weather Service Northwest River Forecast Center.

5. Energy Conservation Achievement (Updated Mar. 10, 2003)

- **State Agencies:** From January to December 2002 electrical usage was 7.6 % less and natural gas usage was 4.1% less compared to the same period in 2000.

6. Winter Load Loss/Reservoir Impacts/Fish (Updated April 21)

- Federal reservoir system storage: 46% full: Precipitation Oct. – to date, 93% of normal.
- Estimated winter (2002/03) load loss probability of 1%

7. Power Exchanged: (May 19, 2003)

- Average flow of power during the last 30 days
 - o California (exported to) 2,964 MW
 - o Canada (exported to) 601 MW
 - o Net power export: 3,565 MW

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DaimlerChrysler, UPS, federal government team up on fuel cell project

20 May 2003

By Sarah Freeman, Associated Press

ANN ARBOR, Mich. — DaimlerChrysler AG said Monday it is teaming with United Parcel Service Inc. and the Environmental Protection Agency for what officials billed as the first introduction of fuel cell vehicles into a U.S. commercial delivery fleet.

The DaimlerChrysler vehicles will be used in normal UPS operations on an established delivery route. A passenger-sized F-Cell — a Mercedes-Benz A-Class powered by a Ballard fuel cell — was expected to begin letter delivery toward the end of the summer. A fuel cell Dodge Sprinter van will begin delivering larger packages next year.

"The really intriguing part of this partnership is that these vehicles are going to be in day-to-day use," said EPA Administrator Christie Whitman. "They can be monitored through temperature variances ... the stops and starts of city driving, and long distances where the speed gets up for a sustained time."

The three said they would base their efforts in Ann Arbor at the EPA National Vehicle and Fuel Emissions Laboratory, where a newly designed hydrogen refueling station will be built by Air Products and Chemicals Inc. of Allentown, Pa.

Experts believe it will be at least a decade before fuel cell technology can be widely deployed, with the cost a major stumbling block. The Energy Department acknowledges that fuel cells are 10 times more expensive to build than a conventional auto engine.

Dieter Zetsche, president and chief executive of DaimlerChrysler's Chrysler Group, noted the "tough challenges related to cost" of fuel cells but said projects like the one announced Monday are "vital to fuel cell research and development efforts." Zetsche called fuel cells "the best bet we have to compete with the combustion engine" in the next 10 years.

David Cole with the Center for Automotive Research in Ann Arbor said it's difficult to measure the significance — in terms of the technology — of a project like that being undertaken by DaimlerChrysler and UPS because mass-marketed fuel cells are a long way off and manufacturers have yet to mass-produce them.

"At this point the technology is so new and they're making so many improvements, what you'll see for a while is one and two vehicles, not demonstration fleets of 500," Cole said. "When they do that, they know they have something special, or a lot of money to throw around."

Tom Weidemeyer, UPS chief operating officer, said deploying even one fuel-cell vehicle will help determine "what's needed to make it broadly available. These vehicles are going to be rolling laboratories," he said. "Environmental improvements like this and the needs of business are not incompatible."

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Cole noted more government-auto industry partnerships are likely to take shape as alternative power technology research becomes more "expensive, very high risk, and very competitive." He said, "I think this (type of partnership) is one of the main elements of transforming business models."

Monday's event drew protesters, who stood near the EPA lab holding signs and urging officials to seek more immediately effective environmental policies.

"Hydrogen fuel cell technology is important research for the future but won't reap real benefits for 20 years," said Jeff Gearhart, Auto Project Campaign Director for the Ecology Center. "There is no reason we should have to choose between a hydrogen future and fuel economy now."

SN CRAC Settlement Talks Fail: BPA Sees 7.5 Percent Rate Increase

Clearing Up, by Ben Tansey

Talks between BPA and its customers over a possible settlement in the agency's proposed rate increase broke down last week. Customers presented BPA with a proposal for implementation of the safety net cost recovery adjustment clause, or SN CRAC, but the agency rejected it, sources said.

About 30 representatives of the Bonneville Power Administration and its customers met and caucused on and off all day Wednesday and for a few hours Thursday. But by 11 a.m. negotiations ceased. The parties said a confidentiality agreement prevented them from discussing the substance of the talks.

"We were not able to reach a settlement," said Barney Keep, BPA's lead negotiator. He would not confirm that BPA rejected the customer offer. "The group came to a conclusion that we didn't have a basis to settle.

"You need to know the agency is still considering everything," he added. There were points made that "need to be thought about," and the agency "has not made up its mind. A lot of times things can be presented in a different way that make a better connection than they did before."

In addition, Keep said BPA's financial picture is improving, and the agency now estimates the rate increase will come in at a net of 7.5 percent over current rates, plus or minus 2 percentage points. That's half the net 15 percent increase BPA proposed when it triggered the formal rate proceeding in February.

"It's generally nicer to settle than not to settle, but life goes on," said Kevin O'Meara, senior economist at the Public Power Council.

Customers refused to disclose the nature of the settlement they offered; various reports were all over the board. PPC's O'Meara said one can get "a fair indication of the path we were heading down" by reading the rate case testimony.

Another source said "BPA was asking for \$920 million, less any known cost changes, and customers were not willing to offer that. BPA won't recognize a cost change until "they see the whites of its eyes," the source said.

"BPA needs to make more cuts and take a few more risks," said industrial customer consultant Linc Wolverton.

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Meantime, in Washington, DC, a cadre of industrial customers including Alcoa, Kimberley-Clark, Boeing, Weyerhaeuser, Con Agra Foods and others met for 40 minutes with Secretary of Energy Spencer Abraham and Deputy Energy Secretary Kyle McSlarrow, BPA's boss. Also present was Ken Canon, executive director of Industrial Customers of Northwest Utilities. The group wanted "to make sure Bonneville was clearly on their radar screen," Canon said.

The industrials encouraged the Department of Energy to do an "overall management audit" of BPA to examine its activities and whether they are "necessary and appropriate at this time," Canon said. "Just because you've been doing something for a number of years doesn't mean you're doing it in the best way possible."

Canon said both DOE officials seemed "very engaged" and mentioned they had had recent dealings with agencies that also needed "to have another look," such as Los Alamos National Laboratory.

Also in DC, BPA is negotiating with the Treasury Department over short-term borrowing. Treasury is prepared to offer up to \$250 million, contingent on BPA's providing a "credible five-year business plan" with a high Treasury repayment probability and the maintenance of financial ratios comparable to an "AA"-rated power company. "Treasury will also require that BPA provide certain commitments

with respect to its financial and business management practices," according to a Treasury document obtained by Clearing Up.

BPA has indicated it wants a \$500 million facility that would allow it to borrow for operating expenses. Treasury said it might approve a lending agreement with a one-year sunset date allowing borrowing on an "as-needed basis" only.

In the memo, Treasury complained that BPA "has indicated that it intends to plow back certain financial cost savings to ratepayers rather than using these gains to shore up [its] financial strength." A May 16 briefing Treasury had scheduled with Republican members of the Senate Energy Committee on the negotiations was canceled.

As for the SN CRAC rate case, cross-examination in the formal proceeding was scheduled for Wednesday and Thursday last week, but most parties agreed to waive it, leaving only a handful of cross-examinations that were rescheduled to May 16. Under the schedule, initial briefs are to be filed May 23, with oral argument May 29.

Greenspan says natural gas supply "serious problem"

WASHINGTON, May 21 (Reuters) –

Federal Reserve Chairman Alan Greenspan said on Wednesday the issue of natural gas was a "very serious problem," with difficulties in ensuring supply driving up prices and pressuring U.S. industry.

"I'm quite surprised at how little attention the natural gas problem has been getting, because it is a very serious problem," Greenspan said in response to a question in testimony before the congressional Joint Economic Committee.

The Fed chief said new findings of natural gas reservoirs are drained by half in the first year because of the success of new technologies -- making it difficult to keep up to demand. And, he said, natural gas, unlike oil, is difficult to import.

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"The major reason (it is difficult to import) is not that there is not a huge amount of gas in the world -- it is really quite abundant -- the only way to get it to the United States, other than Canada and Mexico, is to bring it in with cryogenic liquefied natural gas carriers, which have created a major environmental problem," Greenspan said.

"We have very few vehicles which enable us to tap the world natural gas market, and the reason essentially is our capacity to bring in natural gas in cryogenic form is extremely limited," he said.

"And if on the one hand we have encouraged, as we have, very significant growth in domestic demand for natural gas -- but are very readily constrained by our ability to increase supply -- then something has got to give, and what is giving, of course, is price," Greenspan said.

The Fed chairman suggested Congress would have to deal with contradictory federal policy on natural gas, with rising prices already pressing down on industries that rely very heavily on natural gas.

"I don't think we've yet seen the implications of (price pressures), but they are going to arise, and it is coming to your subcommittee," he told one committee member.

"I suspect you'll find a number of people are going to watch very closely because this is an issue that we have not addressed and we have, I'd say, contradictory federal policy," Greenspan said.

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 5/5): 41,915 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

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- Weekly Range at Mid-C: \$26.75 – 35.5 per MWh, Ave. = \$32.19
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 - o Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - o Power grid vulnerable as woes go unresolved (Sacramento Bee, May 7)
 - o Natural gas outlook: costly (Akron Beach Journal, May 4)

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 - o Net power export: 4073 MW

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Power grid vulnerable as woes go unresolved

New market manipulation could add \$50 million -- or more.

By Carrie Peyton Dahlberg, May 7, 2003

Two years after an energy crisis repeatedly blacked out parts of the state and sent giant companies into bankruptcy, California's power market is still ripe for exploitation.

The state's grid operator predicts a new round of market manipulation could add \$50 million or more to annual electricity costs starting this summer.

Today, under a system that's only partly evolved beyond the chaos of the market meltdown, power generators can get paid handsomely to relieve transmission line congestion by pulling promised power off the system, even if they played a role in overloading it.

"The thing that scared us the most about all this whole mess of the energy crisis is remarkably little has been done to deal with the underlying problems," said Michael Shames, head of the Utility Consumers' Action Network.

Federal regulators and the state Independent System Operator, which runs much of the electric grid, are each blaming the other for leaving the door open to what the ISO calls the "dec game," so named because of the way generators are paid to reduce given amounts, or "decrements," of power shipped at a given time.

The game could begin in earnest in less than a month. And despite technical conferences, flurries of legal filings and years of warnings, there is still no solid defense in place.

The money involved is relatively small in a \$10 billion annual electricity market, but the game's existence is a sign that in the past two years, efforts to fix a flawed system have been hobbled by a deep schism over what solution best serves consumers.

Meanwhile, now that more power plants have been built, transmission line clogs are becoming more common, more difficult to manage and more vulnerable to trading schemes.

The dec game is possible because of the way the ISO rations space on power lines.

Power plants and electricity traders give the ISO schedules, one day in advance, outlining who will buy their power and how they want it to move across the network of high voltage lines that make up the electric grid.

ISO computers review the schedules and identify which power lines connecting the state's three zones would be congested, like a freeway jammed with too much traffic.

Then, to keep those lines flowing properly, the ISO uses a bidding system to pay some sellers to change their plans. Some will raise their output incrementally, or "inc," and others will drop their output by agreed-upon decrements, or "dec."

The theory is that sellers will lower their prices to compete for scarce space on transmission lines. And sometimes it works that way.

Energy traders bid in advance to relieve congestion for power moving from other regions into the ISO as well as for transfers among three zones -- one in the north state, one in most of the south state and one around San Diego.

Within the zones, the ISO still lacks a way to resolve congestion ahead of time. Instead, it has to make the adjustments as power is actually moving, in what grid operators call "real time."

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When they see potentially dangerous voltage sags or overloads building on transmission lines, ISO workers can draw on earlier offers to "inc" or "dec," which at times can mean urgent phone calls to plant operators, pleading frantically for adjustments.

Complicating the process: Grid operators have to match the power generated with power used or see the system crash.

Once power has been ordered, pulling a given amount of power off the system -- a dec -- can be costly. Under rules that the ISO repeatedly has asked the Federal Energy Regulatory Commission to change, power plants can be paid up to \$30 a megawatt hour not to run.

That amount doesn't always reflect the actual cost of holding power once a plant is cranked up to produce it. The ISO wants to change the rules to base dec payments largely on costs the power plant incurs for not running.

FERC repeatedly has declined, saying virtually everyone, including the ISO, agrees the underlying market structure is flawed and has to be overhauled. Tweak this element now, some FERC officials fear, and the ISO will postpone real changes even longer.

"The real fundamental problem is that the Cal-ISO is accepting infeasible schedules," said FERC economist Derek Bandera.

The new power generated should translate into falling prices, Bandera said. Instead, the new generation is creating a potential crisis. "That just illustrates how bad the market design is," he said.

California now is ringed with new and nearly completed power plants in Nevada, Arizona and Mexico. They almost all have excess output to sell, and so will be battling for space on transmission lines.

The two plants just south of the U.S.-Mexico border are especially troublesome because they are within one of the ISO zones, even though they're in another country. That means they could submit schedules that would congest transmission lines and then, in real time, demand payments for taking off power for hundreds of megawatts, 12 hours a day or more, virtually daily.

Unless FERC steps in, "the cost of this dec issue could be quite significant and we are concerned about it," said Keith Casey, ISO manager of market analysis and mitigation.

The ISO has told federal regulators the dec game could cost \$50 million a year, while some internal ISO models predict it could go up to \$120 million annually.

But some consumer advocates believe the ISO is overstating the case to encourage construction of more high voltage lines, which would ease congestion.

Some FERC officials believe the numbers are a ploy to get more regulations based on costs -- an approach that makes free-market advocates at FERC recoil.

"I am just not willing to accept worst-case scenarios: The sky is falling, and I am the big bad wolf because I am not letting them protect themselves," said Mike Coleman, a FERC associate director for infrastructure development. "We have to wait and see what unfolds this summer."

Some suggest the owners of the new plants could be shamed into not exploiting the system. "It certainly fails the front-page test to pay generators not to generate," said one energy company official.

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People won't regularly use the dec game, said Ziad Alaywan, ISO director of market operations, because they'll want to avoid the bad publicity.

Alaywan hopes that before June 1, when the Mexico plants go into full service if legal challenges are resolved, he can work out informal agreements with the plant owners not to overcrowd the lines.

Sempra Energy, which owns the San Diego Gas and Electric Co. as well as one of the Mexico power plants, declined to comment. The ISO is doing a disservice to plant owners, said Jim Kritikson, a consultant for InterGen, a venture co-owned by Shell and Bechtel which has built the other Mexico plant. "They're assuming the guilt of generators before they've even had a chance to get online," he said.

Kritikson said he doubts InterGen would ever ask to get paid for not running.

The state is still grappling with how it should plan new power lines, with an Energy Commission report on the most critical needs due out later this year.

By then, California may also have a sense of who is playing the dec game, and how much transmission congestion will cost the state's consumers.

Natural gas outlook: costly

Jim Mackinnon, Akron Beacon Journal - *May 4, 2003*

Natural gas supplies, already sharply depleted by a frigid winter that drove up heating usage, will come under even more pressure if prolonged hot weather this summer causes natural gas-powered ``peaking" electric plants to fire up more than usual to meet air-conditioning demand. Those plants use a lot of natural gas and may be needed for sustained periods just when gas companies want to fill their underground storage systems ahead of next winter.

And it looks like Mother Nature may not provide much help. The latest National Weather Service long-range outlook says it is likely much of the nation will have above-normal temperatures this summer.

The result may be higher-than typical prices for natural gas users, though producers and sellers such as Dominion East Ohio say we won't have to worry about running out of the fuel.

``This past winter is going to have a lot of repercussions," said Jeff Murphy, director of pricing and regulatory affairs for Dominion East Ohio. ``All things considered, we're seeing a lot of upward pressure on prices."

Basically, that means tight supply, low production and increasing demand.

And while that may be good for natural gas producers, it's not for those who buy gas.

The latest federal information shows 741 billion cubic feet of natural gas in underground storage nationally as of April 24 -- well below the more than 1.6 trillion cubic feet stored in the same period a year ago. The five-year average of natural gas storage for this time of year is about 1.3 trillion cubic feet, according to the Energy Information Administration.

To get some idea of how weather can play havoc with natural gas supplies as well as household heating bills, look at Dominion East Ohio customers.

They burned a lot more gas on average this past winter than during the previous year, Dominion East Ohio spokesman Neil Durbin said.

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The average Northeast Ohio household from December 2001 through February 2002 burned 42.3 thousand cubic feet of gas, he said. From December 2002 through February this year, that average household burned 63.5 thousand cubic feet of gas, he said.

The end result: Way less natural gas left in underground storage by the time spring arrived.

“We're going to have to scramble to put gas in the ground. That will keep gas prices high,” said Chuck Faber, director of corporate development for Twinsburg-based natural gas and oil explorer North Coast Energy Inc. The natural gas industry will want to have about three trillion cubic feet of gas stored in time for next winter to be comfortable, he said.

“We could see \$7 (wholesale natural) gas in the summertime,” Faber said. The wholesale price now is about \$5 per thousand cubic feet. Residential customers pay more -- there are taxes, and utilities tack on additional charges for transporting and delivering the gas to households, which is where they make their profit.

There could be price spikes, too, if hurricanes temporarily shut down natural gas production platforms in the Gulf of Mexico, Faber said.

Gas producers have been increasing well drilling, but North Coast and other companies remain reluctant to ramp up production dramatically, Faber said. The cost of drilling a 4,000- to 5,000-foot-deep well is between \$160,000 to \$180,000, while a 10,000-foot well can cost between \$1.5 million and \$2 million, he said.

In addition, it's been harder for drillers to get financing to put in new wells, said FirstEnergy Corp. spokeswoman Kristen Baird. The Akron utility produces, buys and sells natural gas for its own gas-fired peaking plants as well as for retail customers.

“We anticipate pricing will continue to be on the high end,” Baird said.

The Energy Information Administration reports that natural gas production in the U.S. fell by 2.6 percent last year, but should increase by 1.5 percent this year. Even so, demand is expected to increase by 2.7 percent this year compared to last.

“The big gas wells are being depleted,” said Peggy Laramie, spokeswoman for the American Gas Association, which represents the natural gas utility industry.

Because of supply and demand imbalances, the association feels that natural gas prices are going to fluctuate a lot more than they did in the late 1990s, Laramie said. To increase supply, the association and its members are lobbying the federal government to relax regulations and allow them to drill for natural gas in places now off limits to them.

The federal government, meanwhile, is looking to ensure that companies don't engage in price fixing or other illegal means to boost prices and profits.

It's not all bad news for consumers out there.

John Tobin of the Colorado-based Energy Literacy Project said North America gas supplies are vast. But while the supply is there, getting it to customers by drilling and putting it in pipelines is proving more difficult, he said.

Tobin said he thinks competition from lower petroleum prices will help moderate natural gas prices. Energy sources have to compete against each other, he said.

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But Faber at North Coast Energy said his outlook is that natural gas will trade and sell at a premium relative to oil, even though traditionally oil has been more expensive than gas. Part of that has to do with the increased demand for gas, which burns more cleanly than oil, and the ability of oil to be more easily transported, he said.

Wellhead prices -- basically, wholesale prices -- are well down from their peaks in February and early March.

Nationally, the wellhead price of natural gas in the 2002-2003 winter heating season averaged \$4.44 per thousand cubic feet, \$2.08 more than the previous winter, according to federal data.

But don't expect to see the return of \$2 per thousand cubic feet wellhead prices, energy analysts and others said. They estimate wellhead natural gas will range between \$4.50 and \$5.50 per thousand cubic feet through at least the summer and probably into 2004.

For huge industrial consumers of natural gas, the higher costs eat away at profits.

Besides its use in heating buildings and making electricity, natural gas is a key component for fertilizer makers, polymer companies and the steel industry.

The Timken Co. burns about 8 billion cubic feet of natural gas a year, said Peggy Claytor, senior government affairs specialist for the Canton maker of bearings and specialty steel. Claytor, the company's former energy purchaser, specializes in energy and environment issues for Timken.

About 92 percent of the gas Timken uses is used to heat treat bearings and steel, with the remainder used for such things as heating boilers, she said.

While Timken and other companies can hedge the financial costs of gas, they often have to eat the higher energy costs, she said,

``You do not have the luxury of shutting down (a plant) because you have customer obligations to meet," Claytor said.

The higher prices have been a strong incentive for Timken and other companies to become more energy efficient, she said. Timken's changes have lowered its natural gas consumption by 34 percent, she said.

The recession and slow economic growth have also moderated natural gas prices by reducing industrial and business demand, she said.

``An economic recovery will put more pressure on prices," Claytor said. ``In a sense, we are fortunate that our economic recovery has been anemic."

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- Power Pool peak load (Tuesday, 5/12): 36,162 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

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- Weekly Range at Mid-C: \$29 – 35.25 per MWh, Ave. = \$33.2
- Approximate change from previous week \$+1.0 per MWh
- “Normal” price range, before 5/00 \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$27.65 per barrel (year ago: \$24.47)
- Seattle gasoline price (5/12) \$1.65 per gallon (year ago \$1.48)
- Natural gas, Sumas Hub: \$4.63 per million British Thermal Units (year ago \$2.99)
- Approximate change from last week. Oil: +1.6 per barrel; Nat. gas: +\$0.25 MMBtu

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- CA ISO Alert Status
 - A stage 2 alert was declared on July 10, 2002.
 - Restricted maintenance warning declared, Sept. 23, 2001
 - Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - Avista Labs gets deal for its fuel cells (Spokesman Review, May 2)
 - Global warming may cloud directors liability coverage (Wall Street Journal, May 7)
 - Rewriting dam rules could have wide impact (Tacoma News Tribune, May 12)

4. River and Snowpack Information (Updated May 7, 2003)

- Observed April stream flow at The Dalles: 97.4% of average
- Observed April precipitation above the Dalles: 117% of average
- Observed 2003 snow pack as of April 7: 86% of average
- The latest forecast of Columbia River stream flows this January through July is 85.3 million acre feet, 79 percent of normal: National Weather Service Northwest River Forecast Center.

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- Estimated winter (2002/03) load loss probability of 1%

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Avista Labs gets deal for its fuel cells

By Alison Boggs

Fuel cells made by a Spokane company will be used to provide backup power to government communications equipment in 18 states under an agreement signed Thursday.

Avista Labs announced its agreement with havePOWER, a Maryland company that distributes, installs and services fuel-cell products designed for the telecommunications industry.

"We see tremendous growth potential with these types of applications, and they (havePOWER) have the experience and expertise to serve this market," said Avista Labs CEO Mike Davis.

The agreement provides exclusive marketing rights to havePOWER of Avista Labs' fuel cells for specific government communications requirements in 18 states. In turn, havePOWER will purchase a minimum of 40 kilowatts of fuel cells in 2003, 260 kilowatts in 2004 and 400 in 2005. The contract runs through 2006.

Avista Labs would not divulge the value of the contract but said havePOWER received a volume discount. Avista Labs' one-kilowatt fuel cell system costs \$8,050.

Fuel cells are lauded as a nonpolluting way of producing electricity. Hydrogen pumped into the fuel cell goes through an electrochemical reaction that produces energy. The only byproducts are heat and water.

Currently, havePOWER has a contract with the state of Maryland, specifying use of Avista Labs technology at its wireless sites and anticipates the first of several installations will be this month.

"These installations are very critical real-world applications," said Avista Labs spokeswoman Sandra Saathoff.

Specifically, the fuel cells will provide backup power to high-frequency radio sites for state, county and municipal governments. The sites transmit data for phone, facsimile, video and computer networks.

"These applications provide emergency communications for government entities," said George Milne, havePOWER chief operating officer, in a news release. "That makes reliability all the more critical, especially in these uncertain times."

The reliability of Avista Labs' fuel cells is touted because the systems can be serviced with no interruption in power.

Avista Labs is a subsidiary of Avista Corp., which has said it hopes to sell 80 percent of the fuel cell company within the next few months. Despite its momentum, Avista Labs does not expect to be profitable until 2005.

Global Warming May Cloud Directors' Liability Coverage

Wall Street Journal, By Jeffery Ball

HERE'S WHAT companies' directors have to worry about these days: accounting scandals . . . earnings problems . . . oh, and global warming.

With all the talk of potential shareholder lawsuits against industrial emitters of so-called greenhouse gases, Zurich-based insurance powerhouse

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Swiss Re is considering denying coverage, starting with directors-and-officers liability policies, to companies it decides aren't doing enough to reduce their output of the gases.

Swiss Re plans to start mailing out questionnaires in the next few weeks in which it will ask the buyers of directors-and-officers insurance what they are doing to prepare for imminent government restrictions on greenhouse-gas emissions. If Swiss Re decides a client isn't doing enough, it may consider refusing the company D&O coverage when, in a few years, certain countries begin implementing those rules.

Directors-and-officers liability coverage protects a company's directors and named officers from personal liability from lawsuits alleging they mismanaged the company's affairs. This insurance already has grown tougher and costlier for companies to get amid the spate of corporate scandals.

"Emissions reductions are going to be required. It's pretty clear," says Christopher Walker, managing director for a unit Swiss Re set up in 2001 to look at the corporate implications of global warming. "So companies that are not looking to develop a strategy for that are potentially exposing themselves and their shareholders."

Swiss Re plans to send out similar questionnaires later this year to an even bigger group of its clients: the primary insurers that underwrite corporate insurance policies and buy backup, or reinsurance, coverage from Swiss Re.

Swiss Re isn't the only insurer sounding alarms with its clients about global warming. Munich Re says it, too, is asking customers about the issue, though in informal underwriting discussions rather than through a written questionnaire. Munich Re doesn't provide directors-and-officers liability insurance, but the Munich, Germany, company is a big rival of Swiss Re in the reinsurance business, a market in which both companies are major players.

"We want all the parties to be informed about this issue," says Thomas Wollstein, a Munich Re executive. "If we have individual cases where we get the impression it is not being dealt with properly, then we might, in this individual case, exclude the risk."

Behind the insurers' moves is the Kyoto Protocol, the international treaty that seeks to curb greenhouse-gas emissions. The treaty hasn't yet been ratified by enough countries to put it into effect, and the U.S. has rejected the document. But European countries, working with the European Union, are expected to impose caps on greenhouse-gas emissions starting in 2005, and other countries are expected to follow. Swiss Re's Mr. Walker says he worries that even U.S.-based multinationals could face legal and financial risk stemming from the treaty, since most of them have factories in countries that have signed the document.

Word of Swiss Re's coming questionnaire already is starting to turn corporate heads.

"When the insurance companies are debating things, they're debating them because they're beginning to see there may be practical consequences. And when that happens, you've got to pay attention," says Bill Blackburn, vice president and chief counsel overseeing environmental matters at medical-product maker Baxter International Inc., which gets some of its directors-and-officers

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liability coverage from Swiss Re. He adds that Baxter has moved to reduce its greenhouse-gas emissions even without government caps.

To be sure, Swiss Re has an interest in spreading worry among corporate officials about global warming. The insurer is trying to start up some businesses that aim to profit from helping companies deal with their ostensible climate-change risks. "I do see this as a potent business driver," Mr. Walker says.

One possible money-making venture, he says, is peddling insurance to smooth the introduction of an international market in so-called greenhouse-gas emissions credits. The fledgling market is hobbled by uncertainties, including how a buyer can be guaranteed that a seller really has produced the emissions cuts the credits represent.

In Mr. Walker's view, directors and officers could face legal liability if they fail to act early to reduce their companies' greenhouse-gas emissions, exposing their companies to higher catch-up costs for factory overhauls or emissions credits once government mandates take effect.

Not all insurers express such concerns. "Global warming has just not surfaced in our universe as a subject," says Tony Galban, a vice president and manager of directors-and-officers liability underwriting at Chubb Corp., Warren, N.J., one of the leading D&O providers. "Not that I'm discounting the issue and not that I'm suggesting it should be discounted."

A spokesman at New York-based American International Group Inc., another big D&O provider, declined to discuss what factors AIG considers in its D&O underwriting.

Mr. Walker says he proposed the global-warming questionnaire to top Swiss Re officials after watching global-warming-related shareholder resolutions against U.S. companies gain ground. The number of such measures has doubled over the past year. While none has passed, one got 26.9% of shareholder votes in April at American Electric Power Co., the nation's largest electricity producer. Shareholder activists say, and the Columbus, Ohio, company doesn't dispute, that AEP is the nation's biggest emitter of carbon dioxide, the chief suspected greenhouse gas. A similar proposal at General Electric Co., Fairfield, Conn., in April got 22.6%.

Companies typically ask shareholders to defeat the shareholder measures, a stance Mr. Walker argues could emerge as "Exhibit A in potential lawsuits down the line."

Mr. Walker says the insurance industry has an interest in focusing corporate attention on global warming today much as it prodded clients during the 1990s to prepare for the expected Year 2000 computer glitch. But the Y2K problem never proved as serious as many had feared. And today, plenty of lawyers are skeptical that a global-warming-related lawsuit against a company would go very far in court -- particularly one against a U.S.-based company.

"With the federal government firmly and repeatedly saying, 'We do not support mandatory limits,' to say you had an obligation to act is a tough case to make," says Mary Anne Sullivan, a partner specializing in energy issues at Hogan & Hartson, a Washington-based law firm. "I think early action makes a lot of sense. But a lawsuit based on that particular theory strikes me as a tough lawsuit to win."

Rewriting dam rules could have wide impact

LES BLUMENTHAL; The News Tribune

WASHINGTON - He's the National Hydropower Association's "legislator of the year." During the last campaign, he was one of the top Senate recipients of cash from the power companies. And he's a staunch defender of his state's lowest-in-the-nation electric rates.

And though he's from Idaho, Republican U.S. Sen. Larry Craig has drafted a section of a national energy bill now on the Senate floor that could affect dams, utilities and endangered salmon runs throughout the Northwest.

Craig's language would streamline the relicensing of dams, an archaic process that nearly everyone agrees is seriously flawed. But Craig's proposal also would give utilities an opening to avoid the sometimes tough licensing conditions imposed by federal agencies to protect salmon and other fish and wildlife species.

While Craig's provisions have drawn little public attention, they are being closely watched by utilities and environmentalists. The House has included similar language in its energy bill. The White House supports the language.

"We think it is a moderate, responsible approach," said Mark Stover, a spokesman for the National Hydropower Association, which represents 140 utilities.

Environmentalists see it differently.

"This is an insidious, behind-the-scenes move that will have massive implications for salmon protection throughout the Northwest," said Connie Kelleher, an associate director in the Seattle office of American Rivers.

In the Northwest, dams generate almost 80 percent of the electricity. Much of it comes from such mammoth federal projects on the Columbia and Snake rivers as Grand Coulee and Bonneville. Federal dams do not have to be licensed.

But over the next 15 years, licenses for 18 nonfederal dams in Washington state expire - dams that provide enough electricity to power seven cities the size of Seattle.

Nationally, the licenses for nearly 300 projects in 37 states expire between now and 2018.

Utilities have long complained that the relicensing process takes too long, is too complicated, costs too much and has become increasingly dominated by federal agencies.

For 25 years, Tacoma Power's effort to secure a new license for its Cushman Project on the Skokomish River has been tied up before the Federal Energy Regulatory Commission and the courts.

Yet if the Cushman project represents what's wrong with the process, another Tacoma Power project, this one on the Cowlitz River, shows how the process can work.

After four years of negotiating with environmentalists, tribes, federal agencies and others, Tacoma agreed to spend \$60 million to restore wild salmon and steelhead in what was once one of the Northwest's most productive river basins. In exchange, the groups agreed not to fight the Cushman relicensing.

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Among the projects facing re-licensing in the next few years are two dams operated by the Grant County Public Utility District on the mid-Columbia. The pair generate enough electricity to power two Seattle-size cities and represent one of the largest federally licensed projects in the nation.

The utility already has spent \$40 million developing a 12,000-page relicensing application, submitted to federal regulators in April. Grant County started working on its application internally a decade ago.

County spokeswoman Christine Stallard said the utility supports Craig's provision in the energy bill.

"It requires agencies to consider environmental, economic and other public effects before imposing conditions," she said.

Nowhere will Craig's proposal have a greater impact than his home state, where Idaho Power is seeking a new license for its three dams in Hells Canyon on the Snake River. The Brownlee, Oxbow and Hells Canyon dams comprise the largest federally licensed project in the nation.

Built in the 1960s, the dams block the Snake as it flows through the deepest gorge in North America. The original licenses required Idaho Power to provide fish passage for migrating salmon, but after early efforts were ineffective the utility gave up.

Once, more than 1 million salmon spawned upstream of the dams, said Kelleher of American Rivers.

"The Hells Canyon complex is a perfect example of where fish passage is really needed and where the hydro bill is designed to prevent it from happening," she said.

Idaho Power officials, however, say "suitable" spawning habitat upstream from the dams no longer exists. Instead, the utility has agreed to spend \$300 million on other fish mitigation measures.

"We have tried the collaborative process," said Idaho Power spokesman Dennis Lopez. "We have had some good input from environmentalists and the tribes. But in the final analysis we have to do what's right for our ratepayers."

Idaho Power officials, along with other utility executives, have lobbied Craig. During his 2002 campaign, Craig received more than \$164,000 from electric utilities, including \$7,000 from Idaho Power. Only two other senators received more from the electric industry than Craig, according to the Center for Responsive Politics.

"He's been our champion for years," said the hydropower association's Stover.

Craig makes no apologies.

"I had my state in mind, not Idaho Power," he said.

Craig said his proposal would restore some sanity to a process that has become "phenomenally complicated."

Up until the mid-1980s, federal regulators routinely approved new dam licenses with little concern for fish or other environmental considerations. But then Congress approved legislation allowing the National Marine Fisheries Service - now called National Oceanic and Atmospheric Administration Fisheries - the Fish and Wildlife Service and the Forest Service to impose mandatory conditions protecting fish and wildlife.

Craig's language would allow utilities to propose alternatives. In evaluating those alternatives, the agencies would be required to consider not only environmental issues, but also power production, economic concerns, flood control and recreation.

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If the agencies rejected a utility's alternative, the utility could appeal to the secretaries of interior, commerce or agriculture, depending on the agency involved. Outside groups would not have the right to appeal.

"Right now the agencies and the stakeholders have absolute authority," Craig said. "There was no way to balance it."

Craig's language has its critics on Capitol Hill.

"Clearly, the dam relicensing process is broken, but adding more bureaucracy and uncertainty to an already burdensome process is not the answer," said Sen. Maria Cantwell (D-Edmonds).

Environmentalists say that if Craig's language were law, PacificCorp may never have agreed to demolish a dam on the White Salmon River. If Craig's provision were in effect, the utility may not have been required to install expensive fish ladders.

"Utilities block rivers with walls of concrete, and Larry Craig's bill will let them block salmon restoration with walls of red tape," Kelleher said.

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- Seattle gasoline price (5/19) \$1.62 per gallon (year ago \$1.47)
- Natural gas, Sumas Hub: \$5.05 per million British Thermal Units (year ago \$2.74)
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 - Natural gas prices are likely to cause rise in electricity prices (Fort Worth Star, May 18)
 - Bitter debate threatens salmon (Seattle PI, May 20)
 - Turkeys touted as fuel of the future (Associated Press, May 16)

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High Natural Gas Prices Are Likely to Cause Rise in Electricity Prices

Fort Worth Star-Telegram, by Dan Piller - *May 18, 2003*

High natural gas prices, like skillful thieves, are quietly robbing Texans of the lower electricity prices promised when the state's utility market was deregulated 17 months ago.

Because 70 percent of the electricity generated in Texas comes from turbines fired by natural gas, gas prices are expected to push electricity prices up as well. When and how much is still in question. But gas prices are up from \$2.50 per million BTUs when the electricity market was opened to competition in January 2002, to more than \$6 per million BTUs this week.

Worse, those prices aren't expected to fall any time soon, and low reserves of natural gas could threaten stable prices. The U.S. government predicts prices of \$6.42 per million BTUs this summer during peak electricity demand and no less than \$5 per million BTUs the remainder of 2003.

Additionally, low natural gas reserves nationally and in Texas give some the jitters, particularly after gas shortages in North Texas following a February ice storm, when some homes lost heat.

"We've never seen storage levels like this before," says Bill Geise, director of special projects for the Texas Railroad Commission. "It creates an obvious problem for anybody who needs to buy natural gas."

That domino could tilt toward Texas' electricity markets.

Texas Public Utilities Commission Chairwoman Rebecca Klein says she is "very worried" about Texas' heavy dependence on natural gas for electricity generation, and others have said that it may be time to revisit nuclear power generation.

The run-up in natural gas prices is a bump in what appeared to be a smooth, long-term plan by Texas to expand its electricity-generating base on a platform of cheap, natural gas.

In the 1990s, when the state went on a binge building 69 new generating plants, natural gas was thought to be the silver bullet.

Not only was it less expensive, but it had other advantages as well.

Coal has been de-emphasized nationally as a generating fuel because it causes air pollution. Wind power was the delight of the environmental crowd, but Texas' nascent wind energy windmill farms in West Texas still generate only 1 percent of the state's electricity supply. That figure is expected to rise to about 10 percent by the end of the decade.

And the advance of nuclear energy was effectively stalled more than two decades ago by the 1979 Three Mile Island meltdown, and by depictions of danger such as those in the 1978 movie *The China Syndrome*. But, although no prominent national politician has yet stepped forward to promote nuclear power, there are signs that the natural gas price problem may be easing fears about nuclear power.

On April 10, the Senate Energy and Natural Resources Committee approved provisions in a bill that would allow the secretary of energy to provide loan guarantees and agreements by large electricity users to purchase the power from new, advanced-design nuclear power plants.

Those who promote nuclear power may find their arguments buttressed if electricity prices continue to rise. Since deregulation began in Texas early last year, TXU Energy has twice successfully petitioned the Texas PUC for permission to raise the "Price to Beat" from the 8.4

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cents per kilowatt hour price of Jan. 1, 2002, to 9.7 cents today. TXU isn't closing the door on another increase if natural gas prices stay where they are.

Also, 17 months ago, several of the new electricity providers were offering residential electricity priced below 7.5 cents per kilowatt hour for at least 1,500 kilowatt hours of usage monthly. Last week, the lowest prices offered in the North Texas region of Fort Worth and Dallas was Entergy Solutions of New Orleans, at 8.6 cents per kilowatt hour, and Houston-based Gexa, at 8.5 cents per kilowatt hour.

Natural gas has become more expensive for the old Economics 101 reason; it is scarcer, and demand for it has risen. Production has declined the past two years, and underground storage inventories shrank after the coldest winter in years.

Though declining crude oil production can be supplemented by imports from the Middle East, natural gas can't feasibly be imported from other energy-rich parts of the world. The United States is still mostly dependent upon gas drilled within its own borders and supplemented by gas from Canada and Mexico.

Those who needed to buy wholesale electricity on Texas' ERCOT grid during the first half of May learned the new facts of life the hard way. Texas' spot wholesale electricity prices exceeded \$80 per megawatt hour, and the \$50 price late last week was still the highest of the 17 U.S. regional wholesale markets. The sudden costliness of Texas' wholesale electricity is a stunning reversal for a region long accustomed to some of the cheapest electricity in the United States.

Although less than 10 percent of Texas' wholesale electricity needs are purchased on the spot market, those prices are ominous with gas in low supply.

Most big suppliers, like TXU and Reliant Resources in Houston, buy through stable long-term contracts. So the short-term spikes in gas prices won't necessarily result in immediate rate increases for most consumers and businesses.

But the upward trend line means that Texans probably won't realize the fulfillment of then-Gov. George W. Bush's words in 1999 when he signed Texas' deregulation bill. The governor said, "this legislation will result in cheaper electricity prices for Texans."

Four years later, Chief Executive Tim Rogers of Cirro Energy of Plano, one of Texas' new electricity marketers, said that "high natural gas prices will make it tough to bring electricity rates down."

Rogers says Cirro has had to hold off making some longer-term contract offers to bigger business customers "until the market settles down."

When such settling down may happen is an open question.

PUC Chairwoman Klein's worries were enhanced last winter, when colder-than-normal weather nationwide and throughout Texas caused utilities to dig deeply into their stored reserves to provide enough gas to keep customers warm. Texas saw its level of stored natural gas fall from about 330 billion cubic feet in September to the bare minimum of about 100 billion cubic feet at the end of March, according to Texas Railroad Commission figures.

Nationally, the U.S. Department of Energy reports that storage has dropped from 1.6 trillion cubic feet at the beginning of winter to 750 billion cubic feet at the end of the season, the lowest storage level since the federal government started keeping records in 1976.

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Because Texas wants at least 300 billion cubic feet of gas in storage by the start of each winter, and Washington desires at least the five-year historic average of 1.3 trillion cubic feet of gas stored by the time frost comes, utilities will need to buy a lot of gas in the coming weeks just to replenish their storage caverns.

Erle Nye, chairman of TXU Corp., said in early May that "we are replenishing our storage reservoirs on schedule." TXU stores gas in several large depleted reservoirs north of Denton.

But Nye and other electricity generators don't have a leisurely six months before winter to replenish their stores. Texas' peak electricity loads come during the hottest weather, from mid-June through September. At that point, TXU and other electricity generators will need all the gas they can get their hands on to keep their generators operating at full capacity to power air conditioners.

But gas prices are up 50 percent from last summer, when they hovered between \$3.50 per million BTUs to \$4.

"The natural gas market has changed in recent years," the PUC's Klein said. "Until recently, the cold weather in the north was the big driver. Now there is high demand for natural gas in summer because of the need to provide power for air conditioning. Gas is now a year-round market."

Every seller of retail electricity in the Texas market, be it a big generator like TXU, a new provider like Cirro or even wind-power marketer Green Mountain Energy of Austin, has to pay a commodity price for electricity that is now based on natural gas.

"We have to buy electricity in the same wholesale market as everybody else, and when the price of natural gas goes up, our costs go up, too," said John Savage, Green Mountain's Texas regional president.

A solution to the problem is, of course, the traditional Texas method of improving supply through the drill bit. There are indications that high prices are causing the natural gas exploration and drilling industry to rouse itself to the task.

A week ago, the Baker Hughes rig count for North America passed 1,000 drilling rigs for the first time in three years. The rig count was as low as 499 in 1999, when natural gas prices dipped below \$2 per million BTUs.

Cloyce Talbott, chief executive officer of Patterson-UTI of Snyder, the nation's second-largest operator of drilling rigs, said that in the first quarter of this year his company's rig usage was up from 140 last year to 176. Even more significant, drilling-rig operations measured by hourly usage were up by 50 percent over last year.

Fadel Gheit, analyst with Fahnestock & Co. in New York, says the encouraging numbers about drilling indicate that doomsday talk about a coming natural gas shortage may be overdone.

"This runs in cycles," Gheit said. "If there is a shortage, then the drilling industry will go out and find and drill more gas. The greater supply will ease prices."

But longtime oil and gas explorer Roy Pitcock of Graham said, "There is a time lag from when you get a lease and start drilling to when the gas is actually on the market and running through the pipelines.

It will be a while before we catch up."

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Bitter debate threatens salmon

SEATTLE POST-INTELLIGENCER EDITORIAL BOARD

The future of the Northwest is based on this region's abundant energy supply, low-cost renewable hydroelectricity from dams.

Or, the future of the Northwest is based on this region's once abundant natural resources, such as salmon and steelhead.

Two competing visions of this region's direction.

Sometimes, when we're fortunate, advocates for either direction find enough common ground to keep us moving forward together.

Then there are times -- like now -- when the harshness of the debate makes consensus seem impossible.

Earlier this month a federal judge said that dam removal ought to be considered because salmon restoration efforts have been too timid. The reasoning is clear: If the dams are to stay, then every effort, and enough money, has to be directed toward salmon recovery.

Meanwhile, in Washington, Idaho Sen. Larry Craig says it's time to "rebalance" the debate about license renewals for the dams by concentrating on the issues that matter: power, irrigation, flood control and recreational uses. The problem, Craig says, is that environmental groups and tribes can go to court for relief seeking "stricter, more expensive conditions" than what federal regulations require.

Making the dams the only issue for salmon recovery won't bring about consensus -- it limits the debate to either dams or not.

But at the same time, pretending that significant money and resources are not important just makes the dam removal debate inevitable.

There ought to be room for fish and power. But that goes beyond one limited vision of the future.

Turkeys touted as future of fuel

Company comes up with process to turn waste products into energy source

BILL BERGSTROM THE ASSOCIATED PRESS

The versatile turkey has been chopped, pressed and processed into foods as diverse as burgers and bacon. Now a Long Island entrepreneur wants to put a turkey in your tank.

Brian Appel, chief executive of Changing World Technologies, has developed a process for cooking and pressurizing waste turkey parts -- and lots of other things -- into a golden liquid that can be refined into heating oil, diesel fuel or gasoline.

Appel's process, called thermal depolymerization, is essentially an accelerated version of "the oldest of technologies, one that the earth uses when it puts vegetables and dinosaurs under pressure" to form petroleum deposits, Woolsey said.

A \$20 million facility at ConAgra's Butterball turkey plant in Carthage, Mo., is undergoing testing and expected to start using the technique by the end of May, said Terry Adams, chief technology officer for Changing World Technologies.

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The plant ultimately will grind up, heat, pressurize and process 200 tons a day of leftover turkey innards, bones, feathers, fats and grease -- enough to produce 600 barrels of oil daily, officials say.

The process will digest just about anything: garbage, medical waste, hog manure, old tires.

Robert Brown, an engineering professor at the Center for Sustainable Environmental Technologies at Iowa State University, said scientists have known for years how to use thermal depolymerization to convert waste into energy.

The problem, he said, is cost. Biological materials contain water that must be removed before they can be turned into fuel. Brown said biomatter contains oxygen, making it less explosive than fossil fuels.

"I'd be surprised if they can do it at a good price," he said.

Appel acknowledged his process isn't yet competitive.

The plant spends \$15 a barrel to turn turkey waste into oil, compared with about \$13 a barrel for small exploration and production companies and \$5 for a major oil company, he said.

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 5/27): 43,131 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: \$29.5 – 40 per MWh, Ave. = \$34.5
- Approximate change from previous week \$+0.7 per MWh
- “Normal” price range, before 5/00 \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$28.58 per barrel (year ago: \$24.47)
- Seattle gasoline price (5/27) \$1.59 per gallon (year ago \$1.48)
- Natural gas, Sumas Hub: \$5.04 per million British Thermal Units (year ago \$2.74)
- Approximate change from last week. Oil: -0.25per barrel; Nat. gas: -.01 MMBtu

3. California Electricity Situation

- CA ISO Alert Status
 - A stage 2 alert was declared on July 10, 2002.
 - Restricted maintenance warning declared, Sept. 23, 2001
 - Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - Daimler-Chrysler, UPS, federal government team up on fuel cell project (AP, May 20)
 - SN CRAC settlement talks fail (Clearing Up, May 19)
 - Greenspan says natural gas supply is serious problem (Reuters, May 21)

4. River and Snowpack Information (Updated May 20, 2003)

- Observed April stream flow at The Dalles: 97.4% of average
- Observed May precipitation above the Dalles: 114% of average
- Observed 2003 snow pack as of May 7: 89% of average
- The latest forecast of Columbia River stream flows this January through July is 85.3 million acre feet, 79 percent of normal: National Weather Service Northwest River Forecast Center.

5. Energy Conservation Achievement (Updated Mar. 10, 2003)

- **State Agencies:** From January to December 2002 electrical usage was 7.6 % less and natural gas usage was 4.1% less compared to the same period in 2000.

6. Winter Load Loss/Reservoir Impacts/Fish (Updated April 21)

- Federal reservoir system storage: 46% full: Precipitation Oct. – to date, 93% of normal.
- Estimated winter (2002/03) load loss probability of 1%

7. Power Exchanged: (May 19, 2003)

- Average flow of power during the last 30 days
 - California (exported to) 2,964 MW
 - Canada (exported to) 601 MW
 - Net power export: 3,565 MW

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DaimlerChrysler, UPS, federal government team up on fuel cell project

20 May 2003

By Sarah Freeman, Associated Press

ANN ARBOR, Mich. — DaimlerChrysler AG said Monday it is teaming with United Parcel Service Inc. and the Environmental Protection Agency for what officials billed as the first introduction of fuel cell vehicles into a U.S. commercial delivery fleet.

The DaimlerChrysler vehicles will be used in normal UPS operations on an established delivery route. A passenger-sized F-Cell — a Mercedes-Benz A-Class powered by a Ballard fuel cell — was expected to begin letter delivery toward the end of the summer. A fuel cell Dodge Sprinter van will begin delivering larger packages next year.

"The really intriguing part of this partnership is that these vehicles are going to be in day-to-day use," said EPA Administrator Christie Whitman. "They can be monitored through temperature variances ... the stops and starts of city driving, and long distances where the speed gets up for a sustained time."

The three said they would base their efforts in Ann Arbor at the EPA National Vehicle and Fuel Emissions Laboratory, where a newly designed hydrogen refueling station will be built by Air Products and Chemicals Inc. of Allentown, Pa.

Experts believe it will be at least a decade before fuel cell technology can be widely deployed, with the cost a major stumbling block. The Energy Department acknowledges that fuel cells are 10 times more expensive to build than a conventional auto engine.

Dieter Zetsche, president and chief executive of DaimlerChrysler's Chrysler Group, noted the "tough challenges related to cost" of fuel cells but said projects like the one announced Monday are "vital to fuel cell research and development efforts." Zetsche called fuel cells "the best bet we have to compete with the combustion engine" in the next 10 years.

David Cole with the Center for Automotive Research in Ann Arbor said it's difficult to measure the significance — in terms of the technology — of a project like that being undertaken by DaimlerChrysler and UPS because mass-marketed fuel cells are a long way off and manufacturers have yet to mass-produce them.

"At this point the technology is so new and they're making so many improvements, what you'll see for a while is one and two vehicles, not demonstration fleets of 500," Cole said. "When they do that, they know they have something special, or a lot of money to throw around."

Tom Weidemeyer, UPS chief operating officer, said deploying even one fuel-cell vehicle will help determine "what's needed to make it broadly available. These vehicles are going to be rolling laboratories," he said. "Environmental improvements like this and the needs of business are not incompatible."

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Cole noted more government-auto industry partnerships are likely to take shape as alternative power technology research becomes more "expensive, very high risk, and very competitive." He said, "I think this (type of partnership) is one of the main elements of transforming business models."

Monday's event drew protesters, who stood near the EPA lab holding signs and urging officials to seek more immediately effective environmental policies.

"Hydrogen fuel cell technology is important research for the future but won't reap real benefits for 20 years," said Jeff Gearhart, Auto Project Campaign Director for the Ecology Center. "There is no reason we should have to choose between a hydrogen future and fuel economy now."

SN CRAC Settlement Talks Fail: BPA Sees 7.5 Percent Rate Increase

Clearing Up, by Ben Tansey

Talks between BPA and its customers over a possible settlement in the agency's proposed rate increase broke down last week. Customers presented BPA with a proposal for implementation of the safety net cost recovery adjustment clause, or SN CRAC, but the agency rejected it, sources said.

About 30 representatives of the Bonneville Power Administration and its customers met and caucused on and off all day Wednesday and for a few hours Thursday. But by 11 a.m. negotiations ceased. The parties said a confidentiality agreement prevented them from discussing the substance of the talks.

"We were not able to reach a settlement," said Barney Keep, BPA's lead negotiator. He would not confirm that BPA rejected the customer offer. "The group came to a conclusion that we didn't have a basis to settle.

"You need to know the agency is still considering everything," he added. There were points made that "need to be thought about," and the agency "has not made up its mind. A lot of times things can be presented in a different way that make a better connection than they did before."

In addition, Keep said BPA's financial picture is improving, and the agency now estimates the rate increase will come in at a net of 7.5 percent over current rates, plus or minus 2 percentage points. That's half the net 15 percent increase BPA proposed when it triggered the formal rate proceeding in February.

"It's generally nicer to settle than not to settle, but life goes on," said Kevin O'Meara, senior economist at the Public Power Council.

Customers refused to disclose the nature of the settlement they offered; various reports were all over the board. PPC's O'Meara said one can get "a fair indication of the path we were heading down" by reading the rate case testimony.

Another source said "BPA was asking for \$920 million, less any known cost changes, and customers were not willing to offer that. BPA won't recognize a cost change until "they see the whites of its eyes," the source said.

"BPA needs to make more cuts and take a few more risks," said industrial customer consultant Linc Wolverton.

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Meantime, in Washington, DC, a cadre of industrial customers including Alcoa, Kimberley-Clark, Boeing, Weyerhaeuser, Con Agra Foods and others met for 40 minutes with Secretary of Energy Spencer Abraham and Deputy Energy Secretary Kyle McSlarrow, BPA's boss. Also present was Ken Canon, executive director of Industrial Customers of Northwest Utilities. The group wanted "to make sure Bonneville was clearly on their radar screen," Canon said.

The industrials encouraged the Department of Energy to do an "overall management audit" of BPA to examine its activities and whether they are "necessary and appropriate at this time," Canon said. "Just because you've been doing something for a number of years doesn't mean you're doing it in the best way possible."

Canon said both DOE officials seemed "very engaged" and mentioned they had had recent dealings with agencies that also needed "to have another look," such as Los Alamos National Laboratory.

Also in DC, BPA is negotiating with the Treasury Department over short-term borrowing. Treasury is prepared to offer up to \$250 million, contingent on BPA's providing a "credible five-year business plan" with a high Treasury repayment probability and the maintenance of financial ratios comparable to an "AA"-rated power company. "Treasury will also require that BPA provide certain commitments

with respect to its financial and business management practices," according to a Treasury document obtained by Clearing Up.

BPA has indicated it wants a \$500 million facility that would allow it to borrow for operating expenses. Treasury said it might approve a lending agreement with a one-year sunset date allowing borrowing on an "as-needed basis" only.

In the memo, Treasury complained that BPA "has indicated that it intends to plow back certain financial cost savings to ratepayers rather than using these gains to shore up [its] financial strength." A May 16 briefing Treasury had scheduled with Republican members of the Senate Energy Committee on the negotiations was canceled.

As for the SN CRAC rate case, cross-examination in the formal proceeding was scheduled for Wednesday and Thursday last week, but most parties agreed to waive it, leaving only a handful of cross-examinations that were rescheduled to May 16. Under the schedule, initial briefs are to be filed May 23, with oral argument May 29.

Greenspan says natural gas supply "serious problem"

WASHINGTON, May 21 (Reuters) –

Federal Reserve Chairman Alan Greenspan said on Wednesday the issue of natural gas was a "very serious problem," with difficulties in ensuring supply driving up prices and pressuring U.S. industry.

"I'm quite surprised at how little attention the natural gas problem has been getting, because it is a very serious problem," Greenspan said in response to a question in testimony before the congressional Joint Economic Committee.

The Fed chief said new findings of natural gas reservoirs are drained by half in the first year because of the success of new technologies -- making it difficult to keep up to demand. And, he said, natural gas, unlike oil, is difficult to import.

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"The major reason (it is difficult to import) is not that there is not a huge amount of gas in the world -- it is really quite abundant -- the only way to get it to the United States, other than Canada and Mexico, is to bring it in with cryogenic liquefied natural gas carriers, which have created a major environmental problem," Greenspan said.

"We have very few vehicles which enable us to tap the world natural gas market, and the reason essentially is our capacity to bring in natural gas in cryogenic form is extremely limited," he said.

"And if on the one hand we have encouraged, as we have, very significant growth in domestic demand for natural gas -- but are very readily constrained by our ability to increase supply -- then something has got to give, and what is giving, of course, is price," Greenspan said.

The Fed chairman suggested Congress would have to deal with contradictory federal policy on natural gas, with rising prices already pressing down on industries that rely very heavily on natural gas.

"I don't think we've yet seen the implications of (price pressures), but they are going to arise, and it is coming to your subcommittee," he told one committee member.

"I suspect you'll find a number of people are going to watch very closely because this is an issue that we have not addressed and we have, I'd say, contradictory federal policy," Greenspan said.

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 6/03): 41,558 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: \$29.5 – 40 per MWh, Ave. = \$34.5
- Approximate change from previous week \$+0.7 per MWh
- “Normal” price range, before 5/00 \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$30.71 per barrel (year ago: \$24.47)
- Seattle gasoline price (6/02) \$1.58 per gallon (year ago \$1.48)
- Natural gas, Sumas Hub: \$5.40 per million British Thermal Units (year ago \$2.74)
- Approximate change from last week. Oil: +2.13 per barrel; Nat. gas: +0.35 MMBtu

3. California Electricity Situation

- CA ISO Alert Status
 - o A stage 1 alert (7% reserve margin) was declared on May 28, 2003.
 - o A stage 2 alert (5% reserve margin) was declared on July 10, 2002.
 - o Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - o Home values unharmed by wind farms (Tri City Herald, May 28)
 - o Hot populated areas spurred power alert. (Sacramento Bee, May 30)

4. River and Snowpack Information (Updated June 3, 2003)

- Observed April stream flow at The Dalles: 97.4% of average
- Observed May precipitation above the Dalles: 82% of average
- Observed 2003 snow pack as of May 7: 89% of average
- The latest forecast of Columbia River stream flows this January through July is 90.2 million acre feet, 84 percent of normal: National Weather Service Northwest River Forecast Center.

5. Energy Conservation Achievement (Updated Mar. 10, 2003)

- **State Agencies:** From January to December 2002 electrical usage was 7.6 % less and natural gas usage was 4.1% less compared to the same period in 2000.

6. Winter Load Loss/Reservoir Impacts/Fish (Updated April 21)

- Federal reservoir system storage: 46% full: Precipitation Oct. – to date, 93% of normal.
- Estimated winter (2002/03) load loss probability of 1%

7. Power Exchanged: (June 2, 2003)

- Average flow of power during the last 30 days
 - o California (exported to) 3,326 MW
 - o Canada (exported to) 1,087 MW
 - o Net power export: 4,413 MW

Wednesday June 3, 2003

Home values unharmed by wind farms

Tri-City Herald, By Chris Mulick May 28th, 2003

A new federally funded study analyzing property sales data found no evidence indicating wind farms harm home values in surrounding areas.

To the contrary, values within a five-mile radius of 10 U.S. wind farms examined in detail grew faster than those in similar communities, according to the Renewable Energy Policy Project, based in Washington, D.C.

The organization makes no attempt to explain the phenomenon nor is it willing to declare unequivocally that property values are not affected by highly visible wind turbines that dot ridge lines, spinning 200 feet in the air.

The first major effort to examine the matter just didn't find any effect on property values.

"It's really an initial marker study," said George Sterzinger, the organization's executive director. "We would love for it to be added to, refined."

The \$25,000 study, paid for by the U.S. Department of Energy, does not consider Energy Northwest's Nine Canyon Wind Project southeast of the Tri-Cities nor the Stateline Wind Farm between Wallula and Lowden, the world's largest. That's because there wasn't enough property sales data in nearby areas for the newer projects to provide suitable statistics.

But Benton County Assessor Barbara Wagner said she hasn't detected any change in property values that can be attributed to the Nine Canyon project on Jump Off Joe Butte, the most visible wind farm to the most people in the Northwest.

"Right now, there is no impact up or down from having the wind farm up there," she said. "There's a pretty good gap there from any residential area."

Energy Northwest is expanding Nine Canyon and plans to begin erecting a dozen new turbines this summer.

The study turned up results similar to one conducted last year to predict impacts of two controversial projects proposed for the Kittitas Valley, where residents have staged a vigorous protest.

That study included a survey of county assessors in 13 counties nationwide that are home to 22 wind farms. The report, compiled by ECONorthwest in Portland, theorized property values are not affected by wind farms partly because some people like looking at them.

The more comprehensive REPP study, with the help of county assessors, compared property sales data near 10 modern wind farms in seven states with property sales in similar communities over three different time frames. More than 25,000 property transactions within the "view sheds" of those wind farms were reviewed.

Of the 30 total comparisons, property values rose faster in communities near wind farms 26 times, though the study makes no attempt to examine why.

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The issue is moot for most wind farms, which are often in remote areas with few homes nearby. But for more controversial projects close to widespread public view, there had been no data compiled.

"I think this is one area where there really hasn't been any information," said Rachel Shimshak, director of the Renewable Northwest Project, the region's leading cheerleader for wind energy. "It's a good thing someone took the time to look into this."

Added Sterzinger, "This most assuredly is not going to satisfy most of the opponents. It's a serious charge and it deserves to be examined closely."

Hot populated areas spurred power alert

By Carrie Peyton Dahlberg, May 30, 2003

Wednesday's statewide power emergency was caused largely by unexpectedly scorching weather in densely populated areas, grid officials concluded Thursday.

A new trend of slightly increased power usage may also be emerging, but it is too early to tell for sure, said Jim McIntosh, head of grid operations for the state Independent System Operator.

"We won't know until we have more days of data. If this happens again and we see a trend, then we'll know we'll have more load out there," he said.

The ISO, which runs much of the state's power grid, is watching consumption patterns because it has to precisely match constantly changing electricity demand, or "load," with supplies being produced by power plants.

It uses computer models that analyze weather, past usage and other factors to predict how much power people will probably consume each hour of the day. When ISO forecasts are wrong, more power plants must be called into service at the last minute. If the gap between supplies and expected demand eats too deeply into special reserves, the ISO declares an emergency, such as Wednesday's "stage one" alert.

The heat was especially hard on the power grid Wednesday because it struck major population centers including San Jose, the eastern Bay Area and communities inland from Los Angeles, McIntosh said. In some of those areas, a single degree of increased temperature can boost demand on the statewide grid by 300 megawatts.

Electricity usage soared about 4,500 megawatts above forecasts, and about 3,800 of that probably was triggered by the weather, McIntosh's staff concluded.

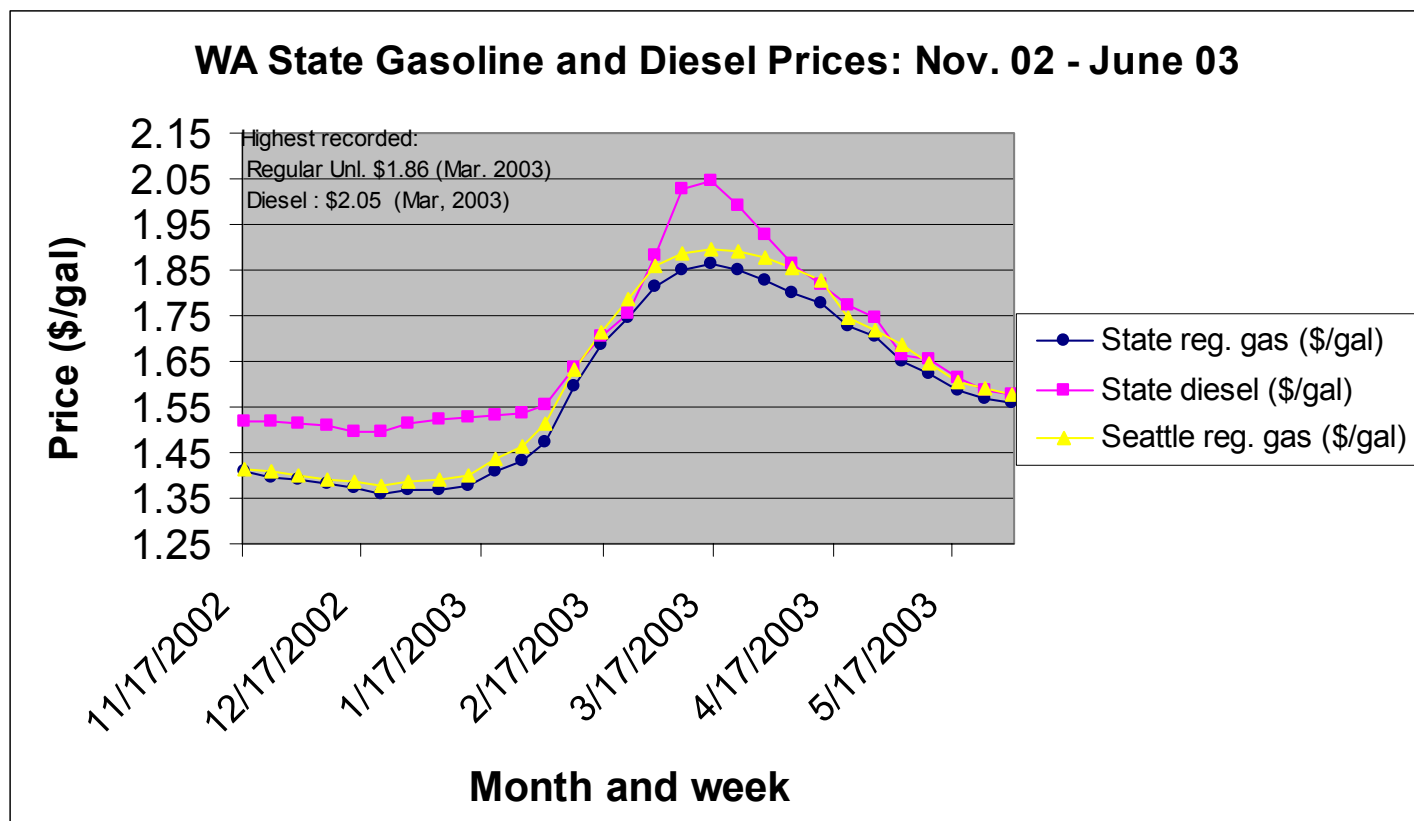
The other 700 megawatts could be attributable to nothing more than the ISO's routine margin of error in forecasting, or to more significant factors, such as lower conservation levels or more economic growth than anticipated, he said.

"I don't think we saw much of any conservation yesterday," he added.

The ISO should get plenty of opportunity to monitor Californians' responses to the heat, because forecasters predict this summer could be warmer than usual. Although temperatures cooled Thursday, another warming trend could kick in by Monday.

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State gasoline prices have declined 30 cents per gallon since reaching a peak of 1.86 in mid-March. Diesel prices have declined 47 cents/gallon during the same period. Prices have stabilized, and may go up slightly, as we enter the summer driving season.



Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 6/10): 42,868 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: \$23 – 40 per MWh, Ave. = \$33.7
- Approximate change from previous week: \$-0.8 per MWh
- “Normal” price range, before 5/00: \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$31.45 per barrel (year ago: \$24.47)
- Seattle gasoline price (6/02): \$1.57 per gallon (year ago \$1.48)
- Natural gas, Sumas Hub: \$5.07 per million British Thermal Units (year ago \$2.74)
- Approximate change from last week: Oil: +0.74 per barrel; Nat. gas: -0.33 MMBtu

3. California Electricity Situation

- CA ISO Alert Status
 - o A stage 1 alert (7% reserve margin) was declared on May 28, 2003.
 - o A stage 2 alert (5% reserve margin) was declared on July 10, 2002.
 - o Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - o Greenspan predicts higher natural gas prices into next year. (New York Times, June 10)
 - o Windmills sow dissent for environmentalists. (New York Times, June 5)

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- **State Agencies:** From January to December 2002 electrical usage was 7.6 % less and natural gas usage was 4.1% less compared to the same period in 2000.

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- Federal reservoir system storage: 46% full: Precipitation Oct. – to date, 93% of normal.
- Estimated winter (2002/03) load loss probability of 1%

7. Power Exchanged: (June 10, 2003)

- Average flow of power during the last 30 days
 - o California (exported to) 3,529 MW
 - o Canada (exported to) 1,050 MW
 - o Net power export: 4,579 MW

Greenspan Predicts High Natural Gas Prices Into Next Year

By DAVID LEONHARDT

On Tuesday, Federal Reserve chairman Alan Greenspan predicted tight supplies of natural gas and high prices for a prolonged period, largely because -- unlike oil -- the U.S. market is unable to draw on world gas supplies easily.

"We are not apt to return to earlier periods of relative abundance and low prices anytime soon," Greenspan said in testimony at a congressional hearing. He noted that the markets are anticipating natural gas prices of more than \$6 a thousand cubic feet well into next year.

Market expectations "imply a 25 percent probability" that the peak price natural gas on the wholesale market exceed \$7.5 per thousand cubic feet by next January, in the middle of the winter heating season, Greenspan said.

Greenspan said that already the increase in gas prices -- more than double what they were last year -- "have put significant segments of the North American gas-using industry in a weakened competitive position" against industries overseas.

"Unless this competitive weakness is addressed, new investment in these technologies will flag," Greenspan said in his appearance before the House Energy and Commerce Committee.

Greenspan did not specifically address whether these problems, affecting especially the chemical, fertilizer, steel and aluminum industries, might hinder economic recovery.

Earlier, the Energy Department said that extremely short supplies of natural gas in storage will result in high prices to continue through this year and into 2004. Gas stocks in storage were 38 percent below what they were last year and 28 percent lower than the five-year average.

"An abnormally hot summer, followed by a cold winter could push natural gas deliverability to the limit and cause record high prices," Guy Caruso, head of the government's Energy Information Administration, told a congressional hearing.

Greenspan said the supply and price problems stem from "a modest gap" between growing demand for the environmentally friendly fuel and supplies that are limited. "Rising demand for natural gas, especially as a clean-burning source of electric power, is pressing against a supply essentially restricted to North American production," said Greenspan.

"If the train wreck occurs and natural gas prices skyrocket and shortages occur, who will be at fault?" Rep. Billy Tauzin, R-La., the committee's chairman, had asked earlier. "We see a storm brewing on the horizon. We need to prepare for it."

But a panel of industry officials provided little insight on what might be done to increase supplies dramatically in the short term, or head off higher prices this summer and winter.

Richard Sharples, a vice president of Anadarko Petroleum Corp., said a chronic gap between supply and demand needs to be addressed by removing regulatory barriers to exploration and development, and providing industry with greater access to gas reserves on federal lands.

That won't help consumers this year in Ohio where Donald Mason, head of the state Public Utilities Commission, predicted that the average residential heating bill next winter will be \$220 higher per household than it was last winter. He said he's trying to find a way to "prepare (people) for the sticker shock."

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"It's already impacted us," Greg Lebedev, president of the American Chemistry Council said in an interview. "And with the domino effect when you have an industry our size, it will by definition have a cascading effect on the entire economy."

Robert Liuzzi, president of CF Industries Inc., speaking on behalf of the fertilizer industry, said high fuel prices already have forced one-fifth of the industry production capacity to shut down. "This situation threatens to destroy an efficient U.S. industry and displace thousands of workers," he said in remarks prepared for the hearing.

The Bush administration also is worried.

Energy Secretary Spencer Abraham has asked the National Petroleum Council to provide a game plan before the end of this month on how to deal with "the looming challenges we face" because of the short-term natural gas supply crunch.

This spring, natural gas in storage dropped to 623 billion cubic feet, the lowest it has been since the government began keeping records in 1976. Stocks have increased somewhat, but remain 38 percent below last year, and 28 percent below the five-year average, according to the department's Energy Information Administration.

By next fall, the government would like to see about 3.5 trillion cubic feet of gas in storage to be ready for the winter heating season, or about three times the amount available now. The average natural-gas fueled home uses about 80 thousand cubic feet a year, according to the American Gas Association.

"The natural gas industry is at a critical crossroads," says Carl English, president of Consumers Energy in Jackson, Mich. He said while the federal government encourages increased use of natural gas to improve air quality and other reasons, it also makes it difficult to get it to meet the increased demand.

A group of 29 Democratic senators recently wrote Abraham urging him to take steps to promote increased conservation to try to curtail gas demand this summer. Abraham agreed to push for conservation measures.

There will be enough gas to go around, but "we're trying to prepare customers for higher prices this winter regardless of the weather," says Peggy Laramie, a spokeswoman for the American Gas Association. The group represents 191 utilities that deliver natural gas to more than 53 million homes.

The spot price on Monday for natural gas was \$6.25 per 1,000 cubic feet at the Henry Hub transit center in Louisiana. The average price was about \$3 per 1,000 cubic feet last year, and \$2.46 per 1,000 cubic feet from 1996-2000, according to the Energy Department.

Despite the high prices, there is little sign that the amount of gas being developed will increase significantly this year with the government expecting an overall 2 percent decline in production compared with last year. The number of drilling rigs has increased about 22 percent from a year ago, but remains below the number in operation in 2001 when surging prices caught the industry's attention.

Windmills Sow Dissent for Environmentalists

By KATHARINE Q. SEELYE

THOMAS, W.Va. — Vincent Collins, a lawyer from nearby Morgantown, has been vacationing in this scenic area for 35 years. A few years ago, he bought a 1.2-acre lot near here and planned to build a house on it. But once he saw the windmills, and learned of plans for more, he scrapped that dream.

Soaring above the treetops are 44 sleek white steel cylinders, 228 feet high. Churning on each tower are three glinting fiberglass blades, 115 feet long. Like quills on a porcupine, they spike the emerald spine of Backbone Mountain for six miles along the Allegheny Front.

They have also generated huge turbulence within the environmental movement. Proponents of wind farms view those who oppose them as heretics, obstructing the promise of clean renewable energy, while opponents decry them as producing insufficient power to warrant their blight on the landscape.

For now, the wind farm here is the largest east of the Mississippi, but the wind-energy industry, long a staple of the California landscape, is blowing eastward. Unobstructed winds, favorable economics and the absence of local zoning laws are attracting developers, and soon more than 400 turbines could be sprouting across 40 square miles of West Virginia's most scenic mountaintops.

"I can't believe how large and hideous they are," Mr. Collins said. "When you hear the word 'windmill,' you think Holland and Don Quixote. That's wrong. They look like alien monsters coming out of the ground."

The growing industry has caused a kind of identity crisis among people who think of themselves as pro-environment, forcing them to choose between the promise of clean, endlessly renewable energy and the perils of imposing giant man-made structures on nature.

To some environmentalists, the opposition to wind power from within their ranks not only stifles the growth of a new source of energy but also calls into question the integrity of the environmental movement itself.

Charles Komanoff, a longtime economic consultant to environmental groups, said the opposition by "well-heeled environmentalists," stoked the preconception that they were more concerned about their own backyards than about the common good.

"They want to have it all and they won't brook any trade-off, especially a trade-off that sacrifices their own comfort," said Mr. Komanoff, who is based in New York.

At the same time, the wind farm developers appear to have the environmental high ground.

"We believe in clean energy," said Steve Stingel, a spokesman for Florida Power and Light, which bought the rights to the wind farm here and then built it. The company is the largest generator of wind power in the United States, with 30 wind farms in 10 states.

Wind now accounts for less than 1 percent of all electricity produced in the United States. But the American Wind Energy Association, the industry's trade group, predicts it will grow to 6 percent by 2020.

The case for wind has been fortified in recent years by advances in technology that make it more efficient and a federal tax credit that makes its financing more feasible.

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But the reality for people like Mr. Collins is something else. Windmill farms must be large to be financially viable. Critics worry that beyond the blemish on the natural landscape, these industrial-sized towers can chop up migratory birds. One farm in California was dubbed the "condor Cuisinart," and the ornithologist monitoring the wind farm here just reported that at least two dozen song birds winging their way north had been killed.

Another complaint is that wind farms can do little to reduce overall dependence on fossil fuels, because of the unreliability of constant wind and the inability to store its power.

"They put out such a minuscule amount of electricity," Mr. Collins said. "It's nuts."

Similar complaints, coming from prominent environmentalists like Robert F. Kennedy Jr., have stalled installation of the nation's first off-shore wind farm, proposed for the waters of Nantucket Sound off Cape Cod. And they have forced the Long Island Power Authority to scrap its plan for wind turbines off the eastern tip of Long Island. But the utility has now proposed putting up to 50 turbines, each 488 feet high, off Long Island's south shore between Fire Island and Jones Beach, two immensely popular summer resort areas.

Mr. Kennedy, for one, said he found "zero" irony in the fact that he had devoted himself to environmental advocacy and yet opposed the wind project on Cape Cod, his Kennedy grandparents' summer home.

"There are appropriate places for everything," he said in a telephone interview. "You would not want a wind farm in Yosemite, and you wouldn't want one in Central Park."

Mr. Kennedy added: "I love wind energy, but let's develop some rules about how you divide up the commons. You're essentially giving the commons over to a profit-making enterprise."

It is not only homeowners with nice views who object to wind farms, but business owners as well. Indeed, it was Wayne Kurker, owner of the Hyannis Marina, who first notified Mr. Kennedy about the proposed project in Nantucket Sound.

"I didn't like the idea that what we consider our Grand Canyon was all of a sudden going to be industrialized," Mr. Kurker said of the wind farm, which would consist of 130 turbines over 24 square miles.

Mr. Kurker founded the Alliance to Protect Nantucket Sound and has been joined by scores of local politicians, chambers of commerce worried about the effect on tourism, and celebrities like Walter Cronkite in opposition to the project.

The main reason wind is taking off now is the huge financial incentive provided by government subsidies. While critics argue that these subsidies are only making developers rich, supporters say they are peanuts compared with subsidies for fossil fuels and they provide much-needed revenue to ailing rural economies while also delivering clean energy.

The main subsidy is the federal tax credit, which is set to expire at the end of the year but is likely to be renewed by Congress. The credit allows windmill companies to deduct 1.8 cents from their tax liability for every kilowatt hour they produce for 10 years. The savings are huge.

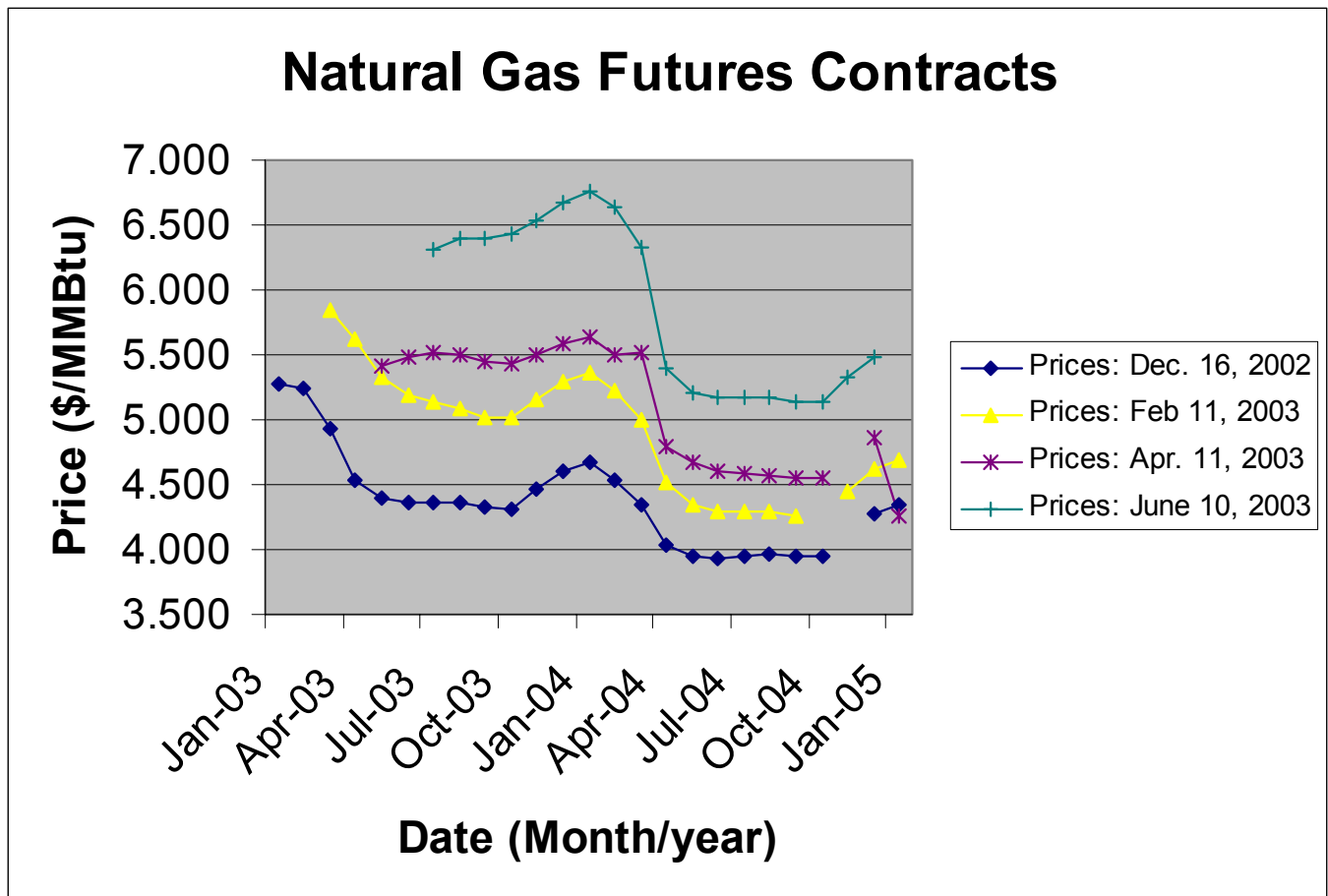
For example, Jerome Niessen, president of NedPower, which has received permission from the West Virginia Public Service Commission for a 200-turbine wind farm near here in Grant County, said he expected to generate 800 million kilowatt hours per year, for a tax savings of \$16 million a year for 10 years, or \$160 million — on a wind farm that will cost \$300 million to build.

NedPower is to pay \$500,000 in local taxes, making it the fifth-largest taxpayer in the county. (That is far less, however, than the \$3 million the company would have paid just two years ago, before wind energy lobbyists persuaded the government to tax towers and turbines at a lower rate.) The company has also developed a public-private partnership with two local schools, which will earn royalties from the wind farm of about \$75,000 a year.

The company will pay local landowners \$2,000 to \$4,000 an acre to lease the necessary 8,000 acres for the towers. And putting up the towers, which will rise 330 feet high and extend across 10 to 12 miles of mountain ridges, will provide 200 construction jobs for a year and 15 permanent technician jobs.

"Fifteen jobs might not sound like much," Mr. Niessen said. "But if one coal mine after another has closed and if another chicken-processing plant has closed, 15 jobs is a lot."

NYMEX natural gas futures contracts remain high, as North American production struggles to refill gas storage reservoirs left depleted last winter. Last summer, natural gas prices were in the 2.50 to 3 dollar/MMBtu range. Relatively high futures prices in 2004 indicate that natural gas supply and demand is anticipated to remain tight.



Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 6/17): 45,003 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: \$16.2 –34.9 per MWh, Ave. = \$24.4
- Approximate change from previous week: -\$9.3 per MWh
- “Normal” price range, before 5/00: \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$31.18 per barrel (year ago: \$24.47)
- Seattle gasoline price (6/16): \$1.60 per gallon (year ago \$1.48)
- Natural gas, Sumas Hub: \$4.64 per million British Thermal Units (year ago \$2.75)
- Approximate change from last week: Oil: -0.27 per barrel; Nat. gas: -0.43 MMBtu

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- CA ISO Alert Status
 - o A stage 1 alert (7% reserve margin) was declared on May 28, 2003.
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 - o Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from California and the Nation
 - o Kerry calls for tougher fuel standards, alternative energy. (Associated Press, June 16)
 - o Short supply of natural gas raises economic worries. (New York Times, June 17)
 - o Puget Sound Energy touts savings from gas heating (Seattle PI, June 12)

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Kerry calls for tougher fuel standards, alternative energy

June 16, Associated Press

Democratic presidential candidate John Kerry unveiled an energy plan Friday that would toughen fuel efficiency standards while trying to ease the pain for the auto industry by providing \$1 billion annually to help it retool.

The Massachusetts senator also would establish an environmental trust fund using money collected in royalties for drilling on public land to pay for research on alternative fuels. Kerry's goal is to make the nation energy independent within 10 years.

The annual payments to the industry are designed to help it overhaul factories to manufacture more efficient vehicles, a move that could save or create up to 500,000 jobs, Kerry argued.

The White House hopeful cast his energy policy in national security terms, choosing a Veterans of Foreign Wars hall for his speech in the state where precinct caucuses next January will launch the presidential nominating season.

``The threats that America faces today don't just come from gun barrels, they come from gas pumps -- and we need to disarm that danger," Kerry told about 100 people gathered at the hall.

``No foreign government can embargo clean domestic renewable sources of energy and no terrorists can seize control of them," Kerry said. ``There is an urgency to this endeavor."

Kerry wants to boost fuel efficiency through a carrot-and-stick approach to the auto industry. Little short-term progress can be made to reduce reliance on oil without increasing fuel efficiency, he said.

``One out of seven barrels of oil in the world is consumed on America's highways," Kerry said. ``I propose both economic incentives to build the cars, the trucks, the SUVs and the buses of the future - - and higher standards for gas mileage for every new vehicle produced or sold in this country."

Kerry's package got an early boost from an environmental group that has called for an even larger, \$300 billion, 10-year package.

``We would like to see all the candidates take even more aggressive steps to create and preserve good jobs and rebuild our nation's infrastructure," said Adam Worbach, of Americans for Energy Freedom.

Backing from environmental and labor groups could give Kerry political cover in important early states such as Michigan, which holds its primary Feb. 7 and where fuel efficiency standards are viewed by many as a threat to the auto industry. Kerry aides said coupling aid to the industry with toughening the standards could assuage critics.

In his speech, Kerry criticized President Bush, once an oil-company executive, saying the Republican's policies will make the nation permanently reliant on foreign oil.

``Today we have an energy policy of big oil, by big oil, and for big oil," Kerry said.

Beside ending dependence on overseas fuel within a decade, Kerry wants alternative fuels producing 20 percent of the nation's electricity by 2020.

An energy trust would finance research into expanded use of alternative energy, and would be funded by diverting the royalties that energy companies pay for the right to drill for oil and natural gas on public lands.

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A focus on renewable energy and alternative fuels is an easy sell in Iowa. Alcohol distilled from corn and other crops is blended with gasoline to create a popular alternative fuel that also creates a new market for corn.

Kerry also wants to increase the use of clean-burning natural gas, proposing a North American compact with Canada and Mexico to develop and transport natural gas from across the continent.

One of Kerry's rivals, Rep. Dick Gephardt of Missouri, has scheduled a speech next week in California to spell out his plan ``to work with industry to achieve true energy independence within 10 years."

Short Supply of Natural Gas Raises Economic Worries

NY Times, June 17, by Simon Romero

HOUSTON, June 16 — The economy has been cool, and so has the spring in much of the country. Nonetheless, the United States is facing its most severe shortage of natural gas in a quarter-century.

Industries like fertilizer and ammonia makers, which use gas to produce their goods, are already laying off workers. And experts warn that a warming trend, in the economy or the weather, could send prices spiking for the electricity that cools homes and runs every sort of business.

"You would have thought that the last big upsurge in prices a couple of years ago was a tremendous wake-up call," said Gwyn Morgan, chief executive of EnCana, a Canadian company that is the largest independent natural gas producer and storage operator in North America. "But for most people it was not."

The market manipulation by companies like Enron has been blamed for much of the price surge of 2000 and 2001, which led to brownouts in parts of California and price spikes for electricity in much of the West and some of the Northeast. But now, like then, most analysts agree, the basic law of supply and demand is at work.

With natural gas promoted as a cleaner-burning fuel than oil or coal, nearly all the electric plants built since 1998 are designed to be fired mainly by gas. So demand is up. And while drilling has increased about 25 percent in the last year, much of it has been confined to old, overworked basins that are not as productive as they once were. Supplies, therefore, have not kept up.

In addition, analysts say that a failure to gauge supply needs and weather patterns accurately in an up-and-down economy has added to the squeeze on supplies.

Prices for natural gas have risen sharply in the last year, reaching a peak at more than \$6 per million British thermal units, compared with about \$3.65 a year earlier. Stored supplies of natural gas have fallen to the lowest level since the federal government began keeping records in 1976, with levels about 30 percent below the average for the last five years.

The effects of this latest surge in prices have led to renewed calls from the gas industry for the loosening of environmental restrictions on drilling and pipeline construction in the United States. Energy Secretary Spencer Abraham and the National Petroleum Council are convening a top-level meeting later this month to discuss the shortage and propose solutions.

Last week, the Federal Reserve chairman, Alan Greenspan, warned the House Energy and Commerce Committee that short supplies of natural gas could contribute to erosion in the economy.

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Mr. Greenspan emphasized the potentially important role that liquefied natural gas, in particular, could play in American energy imports.

Yet with the richest overseas stores of gas in distant regions like West Africa and Southeast Asia and the energy industry under technical and financial constraints, the difficulty of increasing imports remains considerable.

With few immediate answers at hand, industry executives and analysts talk of elevated natural gas prices for years to come.

"We're already facing the prospect of higher utility bills for consumers and higher energy costs for many businesses," Robert Allison, chief executive of Anadarko Petroleum, said in an interview.

"The shortage is going to become a matter of exporting jobs to countries with cheaper natural gas."

The fertilizer industry has been particularly hard hit, since natural gas accounts for 90 percent of the cost of ammonia, the building block for nitrogen fertilizers. Robert C. Liuzzi, chief executive of CF Industries, a farm-supply cooperative based in Long Grove, Ill., said high natural gas prices were the most serious threat to the industry since the energy shocks of the 1970's.

Ammonia manufacturers are not faring any better, with factory closings becoming common. Mississippi Chemical, an ammonia company based in Yazoo City, Miss., filed for bankruptcy protection last month. The company idled a plant in Ohio, cut production at another in Tennessee and shut down a factory in Donaldsville, La., resulting in the loss of 24 jobs.

Charles O. Dunn, the chief executive, cited the "extreme increase and volatility in the price of domestic natural gas" as contributing to Mississippi Chemical's mounting financial losses.

Power generators that are capable of switching their plants to fuels like oil or coal are doing so to mitigate their dependence on gas. But analysts say that this, in turn, is contributing to higher prices for those fuels.

Over all, about 23 percent of the nation's energy needs are met by natural gas. The United States is a large producer of natural gas, second to Russia, and 85 percent of the gas used here comes from domestic wells. But many parts of the country remain off-limits for drilling for environmental reasons.

Gaining access to these areas is a top priority of the energy industry, foreshadowing a more intense struggle between conservationists and natural gas companies. "The sorry thing is that there is gas to be found in this country but we can't get to it," said Mr. Allison of Anadarko, the nation's most active natural gas driller.

Canada, with large reserves and geographic proximity, provides more than 90 percent of the natural gas exported to the United States. But Canadian imports are slowing, too, with some analysts expecting them to decline steadily in the next decade as demand grows at home.

That leaves the United States with the alternative of importing liquefied natural gas from other countries. Such gas, condensed into a liquid by chilling it, is transported by ship, and currently accounts for only 1 percent of the nation's gas imports.

Yet even raising today's imports to 3 percent of the total is not expected to happen anytime soon, because only a handful of terminals in the United States are capable of processing liquefied natural gas. The largest are in Everett, Mass., near Boston, and Lake Charles, La.

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The costs involved in building the terminals, and the reluctance in many coastal areas to have large gasification installations in their vicinity, have kept many such projects from getting off the ground. So have fears that terminals could become targets of terrorism and financial concerns about the health and transparency of energy companies in the business world after Enron's collapse.

For instance, the El Paso Corporation, an energy trader based here, has had to abandon an ambitious project to use buoys and shipboard gasification technology to receive liquefied natural gas at offshore locations.

Yet numerous projects for liquefied natural gas terminals are under consideration, ranging from plans to reopen mothballed terminals built in response to the energy crises of the 1970's to more fanciful ideas. One Houston company, Crystal Energy, wants to use existing offshore facilities to build a receiving installation on the Southern California coast.

Several other terminals could be built and functioning within the next three to five years. Then, the United States may face the prospect of increased dependence on large, but sometimes politically problematic exporters like Nigeria, Algeria, Angola, Qatar, Venezuela and Indonesia.

"We're on the verge of discovering that natural gas is almost as important as oil for our energy supplies," said Amy M. Jaffe, associate director of Rice University's energy program. "Once we wake up to this, we'll have to deal with the geopolitical implications of importing natural gas from some of the more unsavory parts of the world."

In the meantime, about the only beneficiaries of the natural gas shortage are companies that can profit from the high prices for the fuel by producing or transporting it in North America. These include huge energy companies like BP, which are considerable gas producers, and a coterie of smaller companies that made a prescient bet on strong demand for natural gas.

Every 10-cent shift upward in gas prices, for instance, translates into a 4 percent gain in cash flow next year for Burlington Resources, which is based here. For EnCana, based in Calgary, Alberta, the same increase results in a 2.5 percent rise in cash flow, according to a study by Deutsche Bank.

"This is the strategy payoff we have been anticipating for many years," Mr. Morgan, EnCana's chief executive, said.

Puget Sound Energy Touts Savings From Gas Heating; Customers Near Lines Urged To Convert From Electricity

Seattle Post Intelligencer, June 12, By Bill Virgin

Attention, homeowners who use electric heat: Puget Sound Energy wants you.

The Bellevue-based natural gas and electrical utility has started a campaign to get residential customers using electricity for space and water heating to convert to gas. Especially if you have one of the company's gas lines running in front of your property.

Puget Sound Energy Chief Executive Steve Reynolds unveiled the plan at the company's recent annual shareholders meeting. "We're pursuing initiatives to strategically expand our natural-gas business to customers now reliant solely on electricity," Reynolds said.

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The utility, which already has 579,000 residential gas customers, doesn't plan a widespread expansion of gas mains to areas where it doesn't already provide service. Instead, the company wants to see if it can add more gas customers where it already has the lines in place.

"We'll look inside our service territory," said Darren Brady, Puget's vice president of customer service. "We really haven't gone back to optimize" the use of existing facilities.

"Our focus is infill opportunities."

Puget plans to direct its marketing effort at 20,000 to 25,000 residential customers by offering them grants and other incentives to install gas service and furnaces and heaters. The incentives will include free hookups, 10-year furnace warranties, \$150 rebates for energy efficient gas furnaces and \$25 rebates for specific gas heaters.

What's in it for customers? "We see it as an opportunity for customers to lower their fuel costs," Brady says. Even with recent increases in natural-gas prices factored in, Puget says the fuel is still more economical for space heating. Using its own rates as a comparison, the heat provided by \$1 worth of gas buys what \$1.73 in electricity would.

From Puget's point of view, converting customers to gas heating is economical for it, too. The utility says there are no additional costs for establishing service to homes 100 to 125 feet from the curb, because the heating load pays for the cost of installing the line and meter, presuming several houses along the main sign up.

Puget also wants to find out if converting customers to gas will help alleviate electrical demand in areas where the power distribution system is at or near capacity. Brady said the utility plans to enlist a couple hundred customers in a test program.

Brady said Puget also plans to work with developers of new residential housing to consider gas not only for space and water heating but for other applications including fireplaces and stoves.

Although electricity was at one time the dominant choice for home heating in the region because of cheap hydropower, that has changed as power prices rose and natural gas became more available. Snohomish County Public Utility District, for example, says about half its customers' homes use electricity for home heating; natural gas has 35 percent of the market, with propane, oil and wood taking the rest.

But in new single-family residential construction, only about 9 percent is all-electric.

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- Power Pool peak load (Tuesday, 6/24): 41,163 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

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- Weekly Range at Mid-C: \$19.5 – 47.0 per MWh, Ave. = \$38.4
- Approximate change from previous week \$+14 per MWh
- “Normal” price range, before 5/00 \$20-\$40 per MWh
- Petroleum, West Texas Intermediate: \$29.17 per barrel (year ago: \$24.47)
- Seattle gasoline price (6/23) \$1.60 per gallon (year ago \$1.48)
- Natural gas, Sumas Hub: \$4.55 per million British Thermal Units (year ago \$2.75)
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- Energy News Headlines from California and the Nation
 - o Censorship on global warming (New York Times, June 18)
 - o Makeover turns “nuclear lemon” into model (The Oregonian, June 22)
 - o BPA rate increase comes in at net 5 percent (Clearing Up, June 23)

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 - o Canada (exported to) 916 MW
 - o Net power export: 4,574 MW

Censorship on Global Warming

When it comes to global warming, the Bush administration seems determined to bury its head in the sand and hope the problem will go away. Worse yet, it wants to bury any research findings that global warming may be a threat to human health or the environment.

The latest example of this ostrich-like behavior involves some heavy-handed censorship of a draft report that is due out next week from the Environmental Protection Agency. As described by Andrew Revkin and Katharine Seelye in yesterday's Times, the report was intended to provide the first comprehensive review of what is known about environmental problems and what gaps in understanding remain to be filled. But by the time the White House Council on Environmental Quality and the Office of Management and Budget finished with it and hammered the E.P.A. into submission, a long section on the risks posed by rising global temperatures was reduced to a noncommittal paragraph.

Gone is any mention that the 1990's are likely to have been the warmest decade in the last thousand years in the Northern Hemisphere. Gone, also, is a judgment by the National Research Council about the likely human contributions to global warming, though the evidence falls short of conclusive proof. Gone, too, is an introductory statement that "Climate change has global consequences for human health and the environment." All that is left in the report is some pabulum about the complexities of the issue and the research that is needed to resolve the uncertainties.

This is the second shameful case of censorship involving global warming in less than a year. Last September, a whole chapter on climate was deleted from the E.P.A.'s annual report on air-pollution trends. That deed was done by Bush appointees at the agency, with White House approval, possibly because the White House had been angered by a previous report from the State Department suggesting the dire harm that could come from climate change. President Bush had dismissed that report as "put out by the bureaucracy."

The justifications offered for such censorship are feeble. One excuse is that global warming has been discussed in other reports and thus need not be dealt with again. But surely reports billed as comprehensive reviews should be comprehensive.

Another excuse is that the administration's new climate research plan will grapple with the issue. But given what we know about this administration, it seems almost inevitable that the experts who are mobilized to study the question will wind up focusing on uncertainties and the need for further research rather than facing up to the policy implications of the existing data.

Christie Whitman, the E.P.A. administrator, is putting on a brave face after her agency's capitulation. She says she feels "perfectly comfortable" issuing the broader assessment of land, air and water quality without waiting to resolve differences over climate change, where the evidence is less solid. But this sorry trampling of her agency's best judgment suggests that Congress, in confirming a successor after she steps down next week, will need to look hard at how free that person will be to offer the best scientific judgment on environmental issues.

Makeover turns 'nuclear lemon' into model

The Oregonian, June 22, by JIM LYNCH

A decade ago, it was considered perhaps the most dangerous, unproductive and unprofessional nuclear power plant in the country, a dead-end job for people who worked there.

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Ralph Nader called it the worst of 50 "nuclear lemons" in 1993. A clean-energy advocacy group suggested putting it out of its misery three years later. An Oregon congressman advocated closing it as recently as 1998.

Yet, the Northwest's only active nuclear power plant, which single-handedly can create enough electricity to power a city the size of Seattle, scores high today on safety and reliability. It also offers some of the region's highest-paying public service jobs with its top official making about \$700,000 a year.

What happened? How did The Columbia Generating Station -- a seemingly doomed nuke plant in the stark fields of the Hanford Nuclear Reservation -- turn into one of the nation's more productive reactors?

The plant's midlife makeover required hiring Energy Northwest Chief Executive Vic Parrish and other expensive nuclear talent who knew how to implement industry wide upgrades that have rejuvenated aging plants. It also took a name and image change for the plant to become known as more than the troubled offspring of one of the worst municipal bond defaults -- better known as "Whoops" -- in the nation's history.

Still, it wasn't until the 2001 drought-inflamed energy crisis that the perceived value of the region's often-forgotten nuclear plant soared as its relatively cheap power helped offset dizzying prices for electricity on the open market.

That same year, Washington CEO magazine ranked Energy Northwest -- the unusual agency that oversees the plant -- one of the state's 10 best places to work. And suddenly, private companies began circling with heightened interest in buying the plant amid rosy talk of it turning uranium into electricity for another 40 years.

Despite its improvements, the plant is under scrutiny again for the way it spends money.

The Bonneville Power Administration recently asked Energy Northwest to cut rising costs. And a consulting company run by former Oregon Gov. Neil Goldschmidt concluded last year that the prevailing industry view of the plant is it spends too much on payroll and has 100 to 200 more workers than it needs.

Parrish, a hard-charging retired Navy officer, insists deep staff cuts could jeopardize plant safety and performance. He also says worker pay -- the average salary for Energy Northwest's 1,100 employees is \$67,200 -- must remain competitive with private-power salaries if the plant is to retain its share of a shrinking pool of skilled nuclear workers.

That's why Parrish says he has encouraged his top executives to take leaves to study at Harvard Business School and elsewhere -- costing ratepayers as much as \$50,000 a pop in 2001 -- and why five vice presidents received \$207,000 to \$343,000 last year in salary, bonuses and benefits.

As for the cost of paying him to oversee operations, Parrish says that issue is best addressed by Energy Northwest's executive board, which sets his salary.

Three of five current and former executive board members interviewed for this story expressed surprise to hear how much Parrish was paid during the past three years, as detailed in Energy Northwest's response to a public records request by The Oregonian.

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Parrish received a base salary of \$431,923 and a total of \$682,470, including performance incentives, in 2002. The two prior years he averaged \$806,500 annually, including incentive bonuses, benefits and deferred payments from prior years.

"That doesn't sound right to me," said Bob Graves, who served on Energy Northwest's executive board last year. "I sure wouldn't publish it in the newspaper until I was sure about your numbers."

Troubled past Energy Northwest changed its name to shake its past.

What began in 1957 as the Washington Public Power Supply System (WPPSS) was a consortium of public utilities designed to pool their clout to build power plants that could help keep electricity rates low.

It started out with a small hydroelectric dam project in the Cascades, but by the mid-1970s set out to build five nuclear plants, three on Hanford grounds and two west of Olympia in Satsop.

The BPA backed most of the project because the Portland-based federal agency would receive the power at cost and sell it throughout the Northwest. But project planners underestimated construction costs and overestimated the region's demand for power as a recession ensued. More than \$2 billion worth of the bonds went into default and were deemed worthless in 1983.

Only one plant, now called the Columbia Generating Station, was completed. By the early 1990s, it ran about half the time and collected even more safety violations than Oregon's Trojan Nuclear Plant near Rainier, which was plagued with safety glitches of its own leading to its 1993 closure. In fact, the two Northwest nukes topped the lemon list of Public Citizen, Nader's nonprofit watchdog group, published in 1993.

A year later, unprofessional behavior put the Washington plant in the news again. It was disclosed that two workers dressed like terrorists in ski masks and rode into the plant on a motorized cart to scare fellow workers. Just days after plant officials called a "timeout" to lecture workers about that incident, one employee was fired and four others reprimanded for binding a co-worker with duct tape and pouring lotion down his pants.

The plant was noticeably undisciplined when George Replogle began inspecting it in 1996 for the U.S. Nuclear Regulatory Commission, the federal agency that polices the industry.

"I was surprised at the poor level of performance," said Replogle, now the plant's top regulator. "Changing the culture of that plant wasn't easy. It was something I didn't think could really be done."

Replogle says that plant operators ignored safety procedures and that worker exposure rates were among the industry's worst. But now the plant is one of the nation's best by most gauges, Replogle says, crediting Parrish and the people he brought in for the turnaround.

Parrish says he was reluctant to accept a job at the plant in 1992 because of its bad reputation and his initial sense that workers weren't willing to change. "Coming out of the Navy you come out with a certain attitude about how things should be done," he said.

New management During his first few years at the plant, Parrish cut staff dramatically. He recalls signing 286 pink slips in one night. He also upgraded the plant, for example, by replacing shoddy valves that kept malfunctioning and forcing expensive reactor shutdowns.

"We made it more reliable and safer and more predictable," Parrish said. "It took away the excuse that you could blame the machine."

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Parrish was promoted to CEO in 1996 but says completing the transformation required shedding the WPPSS moniker. By 2001, the plant's cost of producing electricity was competitive with coal and gas plants. It set a continuous operating streak, with 369 straight days of power generation, during a 2001-2002 span.

"There has been a palpable change in the culture," said Tom Casey, a member of Energy Northwest's executive board. Casey calls Parrish a performance-oriented leader who is never satisfied with yesterday. "He's not a bean counter. This guy just exudes energy all the time. He's very intense."

Too intense, at times, for Larry Kenney, a board member. "He's tough to deal with. He has a very strong will. But maybe that's the way you get things done. When he makes a decision, he's pretty sure he's right."

Casey and Kenney, as did Graves, the former board member, sounded surprised to hear how much Parrish has been receiving in incentive bonuses. "I'm concerned about the numbers," Kenney said. "It's more than I thought it was."

Board Chairman John Cockburn, however, says that Parrish's compensation is appropriate and that some board members perhaps forgot how much Parrish makes when the plant has a good year.

Cockburn says the board decided in 1993 that it needed to compete for the industry's best talent, even though the CEO's growing salary miffed then Washington Gov. Mike Lowry.

Cockburn also says Parrish's contract is structured such that while he can't receive the long-term stock-option wealth his peers at private utilities enjoy, he can make comparable money if the plant hits its performance targets.

Parrish would not publicly discuss his salary, other than to say he gets called by other companies about once every four months to see whether he can be wooed away. He prefers to discuss the plant's upcoming 20-year extension request with the Nuclear Regulatory Commission that could keep it running through 2044.

Parrish says he admires Swedish nuclear plant operators whom, he says, don't consider their plants limited to any specified lifespan. "They're continuously investing in things to make them go forever," he said. "I view the Columbia Generating Station as a resource through (2044) and well beyond that, if we do our job right now."

Nuclear revival Parrish's optimism fits into what some call a nuclear renaissance in the United States.

There hasn't been a new nuclear plant ordered since the meltdown scare in 1979 at the Three Mile Island plant near Harrisburg, Pa., but Congress has agreed to help finance new plants with federal loan guarantees.

The revived interest stems from ongoing industry improvements. The nation's 103 nuke plants are on line more than 90 percent of the time, compared with 71.7 percent of the time in 1990. Safety has improved, too. The annual radiation exposure for workers is slightly more than a third of what it was in 1990.

Victor Dricks, an NRC spokesman, says superior preventive maintenance programs transformed the industry. "A lot of uncertainty about nuclear power plant operations is not there anymore," he said.

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"Five or six years ago, nobody was talking about a nuclear renaissance very seriously. Now, a lot of large utilities are looking at the possibility of ordering new plants."

Potential hitches in the rebirth include increased terrorism fears, long-range environmental concerns and a heavy reliance on one of the nation's grayest work forces.

The average worker at Energy Northwest is 48, and 229 workers, almost a fourth of the staff, are eligible to retire in the next seven years. Meanwhile, the number of graduating nuclear engineers is half of what it was a decade ago.

The result is a hypercompetitive nuclear industry, said Carl Mycoff, a Colorado-based executive headhunter.

Mycoff predicts private, investor-owned utilities increasingly will raid public power companies such as Energy Northwest. The only way to keep talent in an industry where pay for top positions has doubled during the past decade is to offer competitive salaries.

Sara Patton is the clean-energy advocate who suggested in 1996 it was time to close the Columbia Generating Station.

"My opinion has changed," says Patton, director of the Northwest Energy Coalition, a nonprofit with members that include environmentalists, renewable power advocates and large utilities.

"They got someone named Vic Parrish to come in, and he's made a big difference. And they have a professional staff. And they don't have the kind of problems they were having at that time."

Patton says she is encouraged by Energy Northwest's ventures into wind and solar power, but she groans at Parrish's goal of extending the life of the nuclear plant for four more decades. "I'm still not a fan of nuclear power by any stretch of the imagination," she said.

Patton says the shortage of knowledgeable nuclear workers makes her worry that the industry is losing its expertise and will become more dangerous. She also says escalating costs required to pay people to oversee the plant makes the venture even more impractical for the long haul.

"It raises the question of, 'Why would we want to extend that risk into the future?' " she said. "Why not cut our losses?"

Bonneville Rate Increase Proposal Comes in at Net 5 Percent

Clearing Up, by Ben Tansey, June 23

BPA wholesale rates could increase an average of 5 percent over current rates come Oct. 1, the agency said last week in a draft record of decision (ROD). But the actual amount of the safety net cost recovery adjustment clause, or SN CRAC, is still not absolutely final, and could change after a "second look" in August that will account for water and market conditions, and the status of litigation over federal power benefits received by the region's investor-owned utilities.

BPA stressed that the 5 percent hike--which the agency calculated would be the average net increase above current rates over the next three years as rates go up and down every six months--is "significantly less" than the net 15 percent it was projecting last February. Back then, market fundamentals looked grim; but that was before what at BPA has come to be known as "miracle March," when water and market conditions improved markedly, and before the agency had committed to additional cost cuts.